

Investing in uncertain times

Not-for-Profits

Jack Serhant

Vice President, Head of
Solutions Distribution

Jennifer Bender, Ph.D.

Global Chief
Investment Strategist

Brent Bell, CFA, FRM

OCIO Strategist

Chee K Ooi

Senior Portfolio Manager

Susan M. Doyle

Global Head of
Private Market Funds

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Insights for Not-for-Profits



Jack Serhant

Vice President, Head of
Solutions Distribution

Welcome to the latest edition of Insights for Not-for-Profits. In light of the many changes rippling through the nonprofit world, this quarter's theme is "Investing in Uncertain Times." Three main factors are clouding the outlook for nonprofits: changes in tax policy, government funding cuts, and macroeconomic shifts.

The "One Big Beautiful Bill" reshuffled the tax code in myriad ways, some of which have deep implications for nonprofits. New taxes on college and university endowments present stiff financial headwinds and call for endowments' investment officers to reappraise their strategies. The impacts of other shifts are less clear. For example, it remains to be seen how changes to charitable gifts' tax treatment will affect future giving.

Meanwhile, the federal government is slashing funding in a range of ways, from directly canceling programs to dismantling the Department of Education. At nonprofits, drop-offs in funds are forcing layoffs, driving workers to pursue different career paths, and calling spending for critical programs into question.

Finally, while equity markets have recovered from their early spring downturn to reach new highs, the outlook

for the coming months is increasingly opaque. Job growth has slowed markedly, inflation has ticked up, and the US stance on trade policy continues to change quickly and unpredictably.

In this quarter's newsletter, we break down key factors clouding nonprofits' outlook and offer strategies and tactics to manage them.

- Considering the recent passage of the Big Beautiful Bill, we explain how new taxes could affect endowments and how endowment investment professionals can prepare portfolios for the future.
- Leaning on insight from Chee Ooi, senior portfolio manager of State Street Investment Management, we explore global defensive equity, an investment strategy designed to provide long-term equity returns with lower risk, and explain why it may be especially useful for nonprofits now.
- Susan Doyle, global head of Private Market Funds, helps shed light on the shifting ways to access alternative investments in not-for-profits' portfolios.

We hope this edition of Insights for Not-for-Profits keeps you informed and prepared to navigate this new, uncertain era. Read on to learn more about the challenges you are likely to face and the tools you can use to address them effectively.

Endowment evolution

How new tax policy could reshape endowment investment strategies



Jennifer Bender, Ph.D.
Global Chief Investment
Strategist



Brent Bell, CFA, FRM
OCIO Strategist

The recent passage of the “One Big Beautiful Bill” marks a turning point in US tax policy—and it has significant implications for many colleges and universities. The sweeping legislation introduces new tax structures that will affect how some endowments manage, grow, and spend their assets. The institutions that face the most potential financial harm from the new tax hikes can take tangible steps to mitigate their impact, drawing on techniques other institutional investors have used for decades to minimize taxes’ impact on their results.

What the Big Beautiful Bill means for endowments

Under the new bill, private nonprofit institutions of higher education that enroll at least 3,000 students will be taxed at three different tiers. Endowments with

between \$500,000 and \$750,000 in assets per student will be taxed at the current rate of 1.4%. Endowments with between \$750,001 and \$2 million per student face a 4% tax rate, and endowments above \$2 million per student face an 8% tax rate.¹

Three key investment implications of the new tax policy

The new rules have wide-ranging implications for endowments. Here are three key investment considerations:

1. Lower expected returns, net of taxes, could call for changes to target asset allocations

The new taxes could take a sizable bite out of the returns that support endowment portfolios’ annual spending and long-term growth. The reduction in potential returns may require staff and boards to reduce annual spending, accept slower growth of their endowments, or assume greater risk in pursuit of similar after-tax returns. Many institutions may want to increase allocations to growth-oriented assets including equities, credit, and alternatives such as hedge funds, private equity, and private credit.

2. Liquidity needs may rise, affecting decisions related to alternatives

Many institutions of higher learning are struggling with reductions in federal government grants. A sudden increase in the tax rate could exacerbate these funding issues. Institutions might be forced to raise cash by selling assets from the more liquid segments of their portfolios. They also might choose to sell less-liquid assets if they can find buyers at the right price. For example, the Harvard and Yale endowments already have announced plans to sell portions of their private equity portfolios.

These liquidity needs may reduce endowments' use of alternatives in the short run. That said, alternatives' potential to improve portfolios' diversification, growth, and income may prove especially valuable in a future in which endowments must overcome tax-related headwinds.

The new outlook also may call for adjustments within alternative asset allocations. For example, private credit and real estate generate a high percentage of their total returns in the form of income, which can create an annual tax liability. Endowments might prefer to allocate more to private equity and venture capital, as well as public equity, because taxation of gains on those asset classes is deferred—in which case they will need to ensure the other portions of their portfolios provide enough liquidity to meet spending needs, fund capital calls, and pay taxes.

3. Endowment investment strategies may need to become more tax-aware

Taxes have not been a major consideration for most endowments in the past, but that is about to change for large endowments. Tax-efficient investments such as municipal bonds may take on greater roles in endowment portfolios. Endowments may make greater use of tax-efficient, low-turnover vehicles such as exchange-traded funds, and they might explore greater use of segregated accounts to provide more control over the timing of realizing gains. Some also may employ sophisticated tax-loss harvesting and other tax-aware investment strategies, such as programs that use derivatives or structured products to manage exposure

without triggering gains. By contrast, endowments may de-emphasize the use of high-turnover systematic and quantitative strategies, or managed futures programs run by Commodity Trading Advisors.

Insights from our experience in tax-aware investing

State Street Investment Management has been managing tax-aware portfolios for more than 30 years. We are intimately familiar with the range of strategies and tactics that institutional investors can use to mitigate tax drag. These strategies have become increasingly sophisticated and effective in recent years, as advanced portfolio management platforms, coupled with the voluminous market data available today, support tax-aware investing across a wide range of asset classes and investment styles.

For example, our Systematic Equity Beta team employs optimization techniques to manage tax considerations efficiently. Portfolio managers rebalance regularly, taking advantage of natural market volatility to recognize tax losses from securities that have declined. Harvested tax losses can be used to offset taxable capital gains, either within the equity portfolio or from other investments such as private equity or hedge funds, potentially helping improve the after-tax return of an overall portfolio.

The tax savings produced by harvesting losses can stay invested and potentially compound over time, adding considerable long-term value. A typical tax-managed portfolio harvests losses and defers gains over many years, so the net unrealized gains of the portfolio tend to grow over time.

The passage of the Big Beautiful Bill introduces new tax challenges for many colleges and universities. Government policies affecting endowments remain in flux, with potential implications not only for investment management but also for return expectations, spending, the choice of investment vehicles, and other considerations. We are monitoring this evolving landscape, and we will continue to work closely with our clients to navigate it.

Global defensive equity: Managing volatility with confidence

For nonprofits facing funding challenges, a global defensive equity strategy can help



Chee K Ooi
Senior Portfolio Manager

For nonprofits, the ability to wring as much growth as possible from each unit of risk has never been more important. Organizations facing reduced funding, higher operating costs from inflation, increased taxes, or all of the above need their portfolios to work harder. At the same time, those relying more heavily on investment assets cannot afford to expose themselves to excessive volatility.

A defensive equity approach such as State Street's Global Defensive Equity (GDE) portfolio can help address this dilemma. GDE is an actively managed, diversified, low-volatility equity strategy designed to balance strong returns with lower risk. By focusing on relatively stable stocks, the strategy seeks to provide much of the global equity market's growth potential while significantly reducing volatility and drawdowns.

At its core, State Street's GDE approach is simple: We try to make sure that when we take risks, we get sufficiently compensated for them.

What a GDE strategy looks like

GDE portfolio managers employ a rigorous selection process to identify high-quality companies that exhibit durable growth potential yet trade at reasonable valuations. Assessing quality involves a close evaluation of company management teams and financial fundamentals, such as free cash flow and balance sheet strength. The portfolio tilts toward low-volatility stocks, which typically results in overweight positions in more defensive sectors like utilities and consumer staples, and underweight positions in more volatile areas such as technology and consumer discretionary.

The results speak for themselves. State Street has managed a GDE strategy for 17 years. During that time, it has delivered 90% of the MSCI World Index's return while taking on only 75% of its risk. In rolling five-year periods, GDE has consistently produced lower volatility

Figure 1: GIPS Net Returns

	2Q25 (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception* (%)
Global Defensive Equity Strategy	7.93	15.98	20.77	13.21	11.38	8.22	10.24
MSCI World Index	11.47	9.47	16.26	18.31	14.55	10.66	11.44
Difference	-3.54	6.50	4.51	-5.10	-3.17	-2.44	-1.20

*Inception was January 1, 2009

Source: State Street Investment Management, as of June 30, 2025. Past performance is not a reliable indicator of future performance. Performance returns for periods of less than one year are not annualized. The performance figures contained herein are provided on a net of fees basis, reflecting the deduction of investment management fees. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in US dollars. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss, and the reinvestment of dividends and other income as applicable.

than its benchmark, and in all three calendar years when global equity markets posted negative returns since inception, GDE delivered an average of 8.4% improvement in drawdown. Historically, its long-term standard deviation has been about 11%, similar to that of long-term U.S. Treasury bonds but with equity-like growth potential.

A tool for navigating an uncertain future

In addition to the immediate pressures on funding streams, nonprofits are operating against an unstable macroeconomic backdrop. Uncertainty about global trade and economic policies, as well as heightened geopolitical tensions, continue to unsettle markets. Over the longer term, structural forces—including the rapid integration of artificial intelligence, the physical and economic impacts of climate change, demographic shifts, and growing fiscal strain on governments—may all contribute to a more volatile and unpredictable risk environment for decades to come.

At State Street, our sense is that the market risk is going to be higher over the next two decades than the last two decades, indicating the critical importance for nonprofits to be prepared for a changing risk environment.

Against this backdrop, GDE's orientation toward stability and capital preservation may prove especially valuable.

How not-for-profits can use GDE

Nonprofits can tailor their GDE strategy to meet their particular objectives. Organizations that are looking to increase their equity exposure to pursue greater growth can allocate to GDE as a way to capture equity-like returns without taking on the full measure of equity market volatility. Meanwhile, organizations that already have significant equity exposure but want to reduce risk may choose to replace part of their higher-risk equity allocation with GDE.

Investors should note that incorporating GDE may increase tracking error relative to broad benchmarks like the MSCI World and MSCI ACWI. For this reason, it may be a better fit for nonprofits that focus on total risk and long-term goals rather than those that prioritize minimizing deviations from standard indexes.

For example, an organization might replace a portion of its beta exposure with GDE, freeing up risk budget to pursue higher-return opportunities elsewhere—for example, in concentrated growth strategies or alternative investments like long/short hedge funds. In this way, GDE can serve as an efficient, lower-volatility core that enables institutions to take advantage of higher-risk, higher-reward strategies in other parts of the portfolio.

A timely solution

Not-for-profit organizations face mounting challenges in a world of constrained funding, higher costs, and heightened uncertainty. For those seeking to make more efficient use of their investment assets, GDE provides a way to manage volatility with confidence, helping them sustain their missions through turbulent times while staying focused on long-term objectives.

Start the conversation

Connect with us to learn more about how the not-for-profit investment strategy landscape is shifting, share your perspectives, and discover how our expertise can support your organization. Reach out today to start a conversation.

To learn more, contact the [State Street Not-for-Profit team](#).

An alternative approach to alternatives

How nonprofits can benefit from new ways of investing in alternative assets



Susan M. Doyle
Global Head of Private
Market Funds

In the not-for-profit world as elsewhere, the benefits of investing in alternative assets are well documented.

Alternatives can diversify portfolios beyond public equities and bonds, provide lower overall volatility, and offer a measure of inflation protection. They also bring the potential for higher long-term returns, an especially valuable attribute at a time when many nonprofits are facing rising costs and uncertain funding.

But while most organizations today understand *why* alternatives belong in their portfolios, many still struggle with *how* to invest in them effectively. Traditional approaches may deliver some of the benefits above, but these benefits may be partially offset by high costs,

operational burdens, or other drawbacks. Fortunately, newer approaches to alternatives are emerging that may allow nonprofits to capture many of the advantages while avoiding some of the disadvantages.

Traditional approaches to alternatives

Historically, many nonprofits have used funds of funds, which provide access to a diversified basket of underlying managers, to invest in alternative assets. Another common approach has been to invest in a super-diversified portfolio of alternatives. Under this model, an institution may maintain dozens, or even hundreds, of line items across private equity, hedge funds, real estate, and other asset classes.

These approaches may be effective in providing diversification and professional oversight, but they come with challenges. Operationally, administering a large number of line items can be cumbersome and resource-intensive, particularly for nonprofits with smaller investment teams. Illiquidity is another concern,

as many alternative structures lock up capital for years. Fees can also be high, especially with funds of funds, where investors may pay multiple layers of management and performance fees. Tax considerations, too, can complicate reporting and cash flow management for certain institutions.

For organizations that are increasingly reliant on their investment portfolios to help sustain their missions, these drawbacks may undercut some of the very benefits alternatives are supposed to provide.

New approaches offer distinct advantages

Newer ways of investing in alternatives aim to address many of the traditional challenges. One way forward is to use an outsourced CIO (OCIO) to make primary investments in funds while maintaining an open-architecture, customizable approach. Another option is to use evergreen vehicles that provide ongoing exposure to alternatives with simplified capital calls and liquidity features. Evergreen funds can be specific to a specific asset class or across multiple private market asset classes.

These strategies provide several advantages. First, they can simplify both investment oversight and operations, reducing the administrative burden on nonprofit staff. They also offer greater portability, meaning an organization is not locked into paying fees to a former OCIO or fund-of-funds manager after transitioning to a new provider.

Perhaps most importantly, these approaches allow for customization. Each nonprofit has different risk/return targets, liquidity needs, and mission-driven considerations. A modernized approach to alternatives can be tailored to reflect those factors rather than forcing organizations into rigid, prepackaged structures. In some cases, this shift may also bring cost reductions compared to traditional approaches.

Transitioning to new approaches

Shifting from legacy approaches to newer ones is not an overnight process. For most nonprofits, the transition will be gradual, unfolding over many years as existing commitments wind down and capital is redeployed.

A thoughtful way to manage this transition is through a “path forward” pacing model. This model blends the organization’s legacy portfolio with new investments in a way that helps maintain alignment with allocation targets while gradually modernizing the alternatives program. Through careful portfolio construction, nonprofits can minimize concentration risk in asset types, sectors, vintages, and managers while improving liquidity management.

It is important to recognize that there are no quick fixes. However, over time, adjusting the approach to alternatives can deliver meaningful benefits. These may include lower overall costs, streamlined operations, improved alignment with mission-driven objectives, and enhanced ability to generate the diversification and return potential that make alternatives so valuable in the first place.

Contact the [State Street Not-for-Profit Team](#) to learn more about how investing in alternative assets can benefit nonprofit organizations.

Endnotes

1 <https://www.congress.gov/bill/119th-congress/house-bill/1/text>

About State Street Investment Management

At State Street Investment Management, we draw from our global scale and market-tested expertise to help create original solutions and better outcomes for our clients and the world's investors.

statestreet.com/investment-management

State Street Global Advisors (SSGA) is now State Street Investment Management. Please [click here](#) for more information.

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