Morgan Stanley

INSTITUTIONAL CONSULTING SOLUTIONS

2026 Endowments and Foundations Survey

Insights into how organizations are managing portfolios, strengthening governance and calibrating expectations amid growing complexity

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Navigating a Shifting Landscape for Nonprofits

The environment facing endowments and foundations is changing faster than ever. But organizations' commitment to their missions remains steadfast. As a nonprofit leader, your task—among many others—is to maintain an investment portfolio that funds operations and grantmaking while closely monitoring market developments and rising geopolitical risk.

Understanding how investment decision-makers at other endowments and foundations are responding and adapting to this backdrop can be invaluable. To explore how organizations are navigating these dynamics, Morgan Stanley surveyed investment leaders at 100 mid- to mega-sized endowments, foundations and nonprofit organizations.

We asked them a wide range of questions, from what concerns keep them up at night to their views on alternative investments and their approaches to governance.

Expanding on our inaugural 2023 survey, this research reflects investor sentiment in early 2026 and captures how attitudes, priorities and practices have evolved in the past three years.

We're excited to share these insights with you, and we would welcome the opportunity to discuss how our findings can guide your approach to managing your organization's portfolio and supporting its mission.

In this report, we explore:

Portfolio Management

Rising geopolitical tensions and growing alternatives allocations have reshaped how organizations think about risk and liquidity.

Governance, Staffing and Consultant Relations

Despite increased portfolio complexity, investment staff and consultant engagement models have held steady.

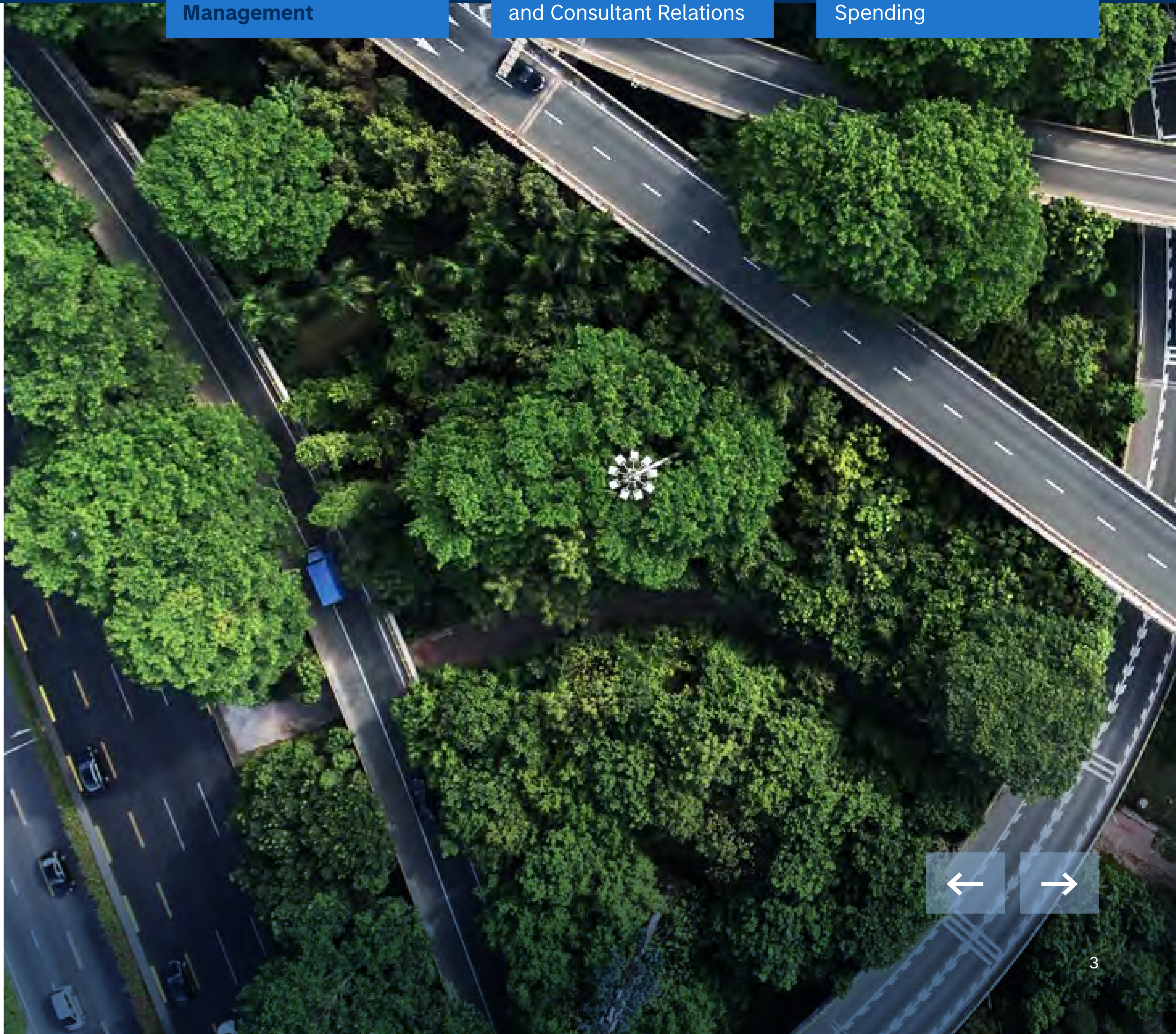
Fundraising and Spending

Organizations are counting on more robust fundraising to offset rising spending needs.

SECTION 1

Portfolio Management

Now that alternatives have overtaken U.S. public equities as organizations' largest allocation, focus has shifted from diligence and integration to liquidity analysis and management.

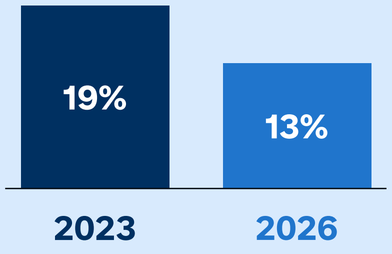


Organizations are more cautious amid myriad concerns

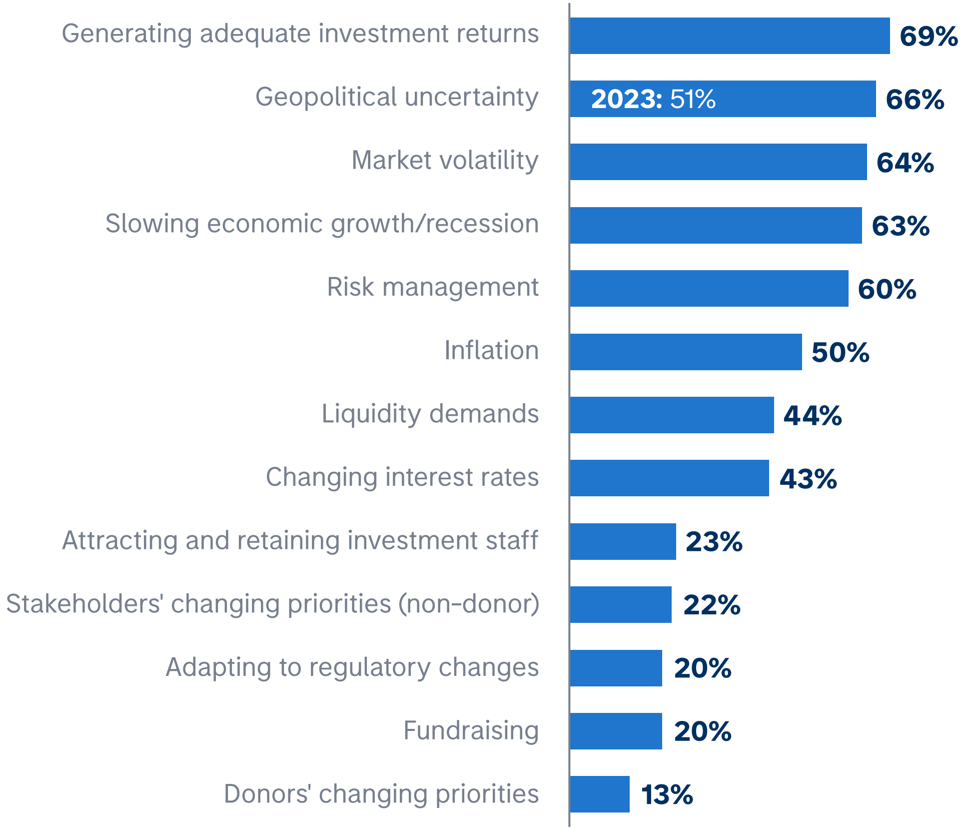
Endowments and foundations' (E&Fs) have grown less confident as geopolitical concerns gain prominence. Only 13% of respondents report being "very confident" that they would hit their three-year return targets, down from 19% in 2023.

Surging geopolitical uncertainty is a major contributor to this decline in confidence. Considering that the survey was conducted before the most recent Middle East conflict, these concerns are likely even more pronounced.

Organizations that said they are very confident in achieving their target annualized return over the next three years



Significant Financial Concerns



Q: How confident are you that your organization will achieve its target annualized return over the next 3 years?

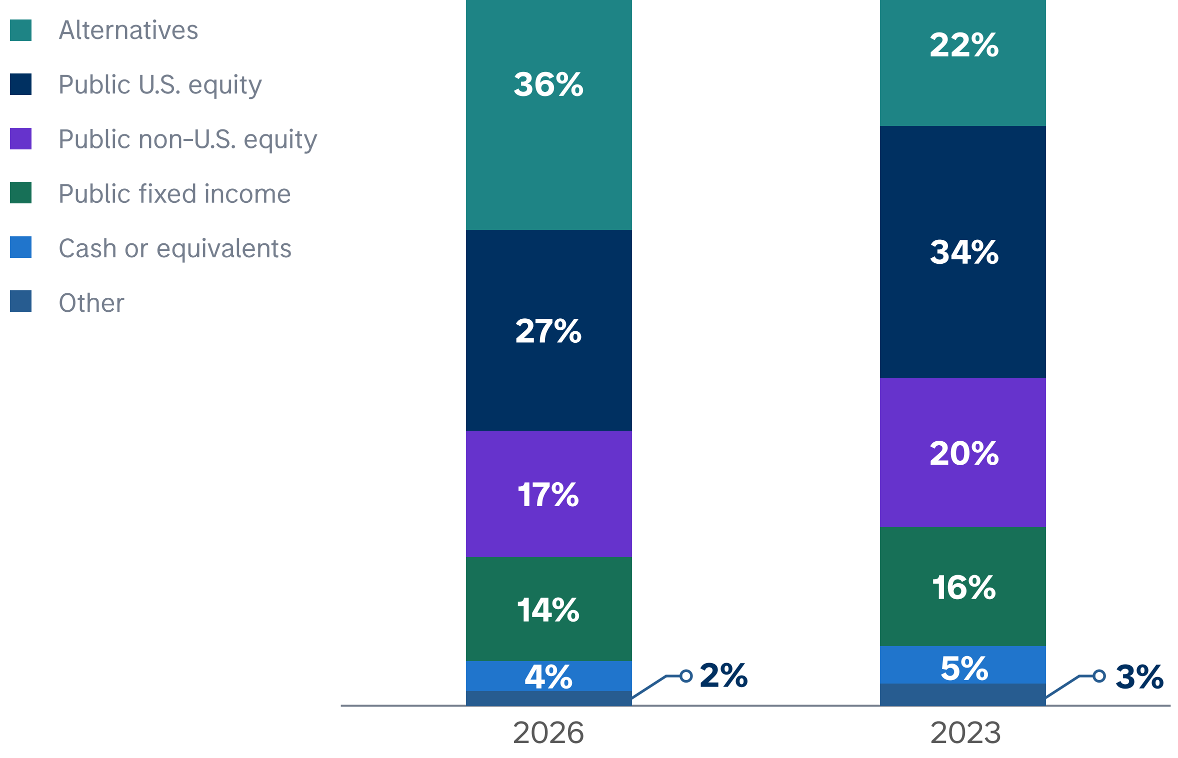
Q: Which of the following are significant financial challenges that (figuratively) keep you up at night? Select all that apply.

Alternatives have passed public U.S. equity as the largest allocation

The ongoing push to access the diversification, return enhancement and inflation-protection benefits of private markets and other alternatives has reshaped E&F portfolios. Alternatives now represent 36% of E&F allocations, surpassing public U.S. equity as the single-largest sleeve.

The survey results show that organizations are sourcing funds evenly from across other asset classes, suggesting that alternatives are playing a diverse array of roles in E&F portfolios.

Asset Allocation as Percent of AUM



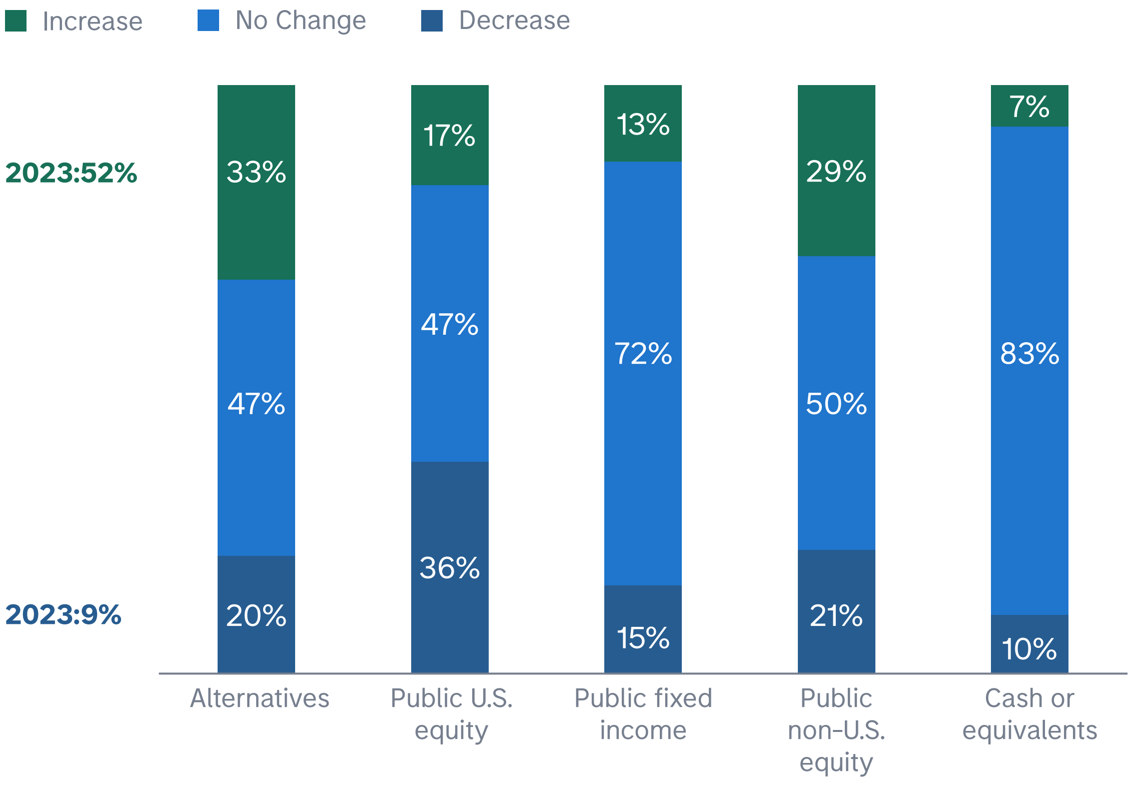
Reallocations to alternatives may begin to plateau

Now that alternatives represent the single-largest sleeve in E&F allocations, there is less room for new allocations. Thus, the rapid growth of alternative allocations could begin to moderate, according to the survey results.

Compared with 2023, notably fewer organizations expect to increase their alternatives allocations in the next 12 months. Meanwhile, the percentage of organizations that plan to decrease their alternatives allocations has more than doubled since 2023.

Interest in public non-U.S. equities has increased, making it the only traditional asset class poised for a net increase in allocations. This renewed interest likely reflects opportunities in international and emerging markets, as well as diversification considerations amid geopolitical and economic concerns.

Expected Change in Allocation Over Next 12 Months



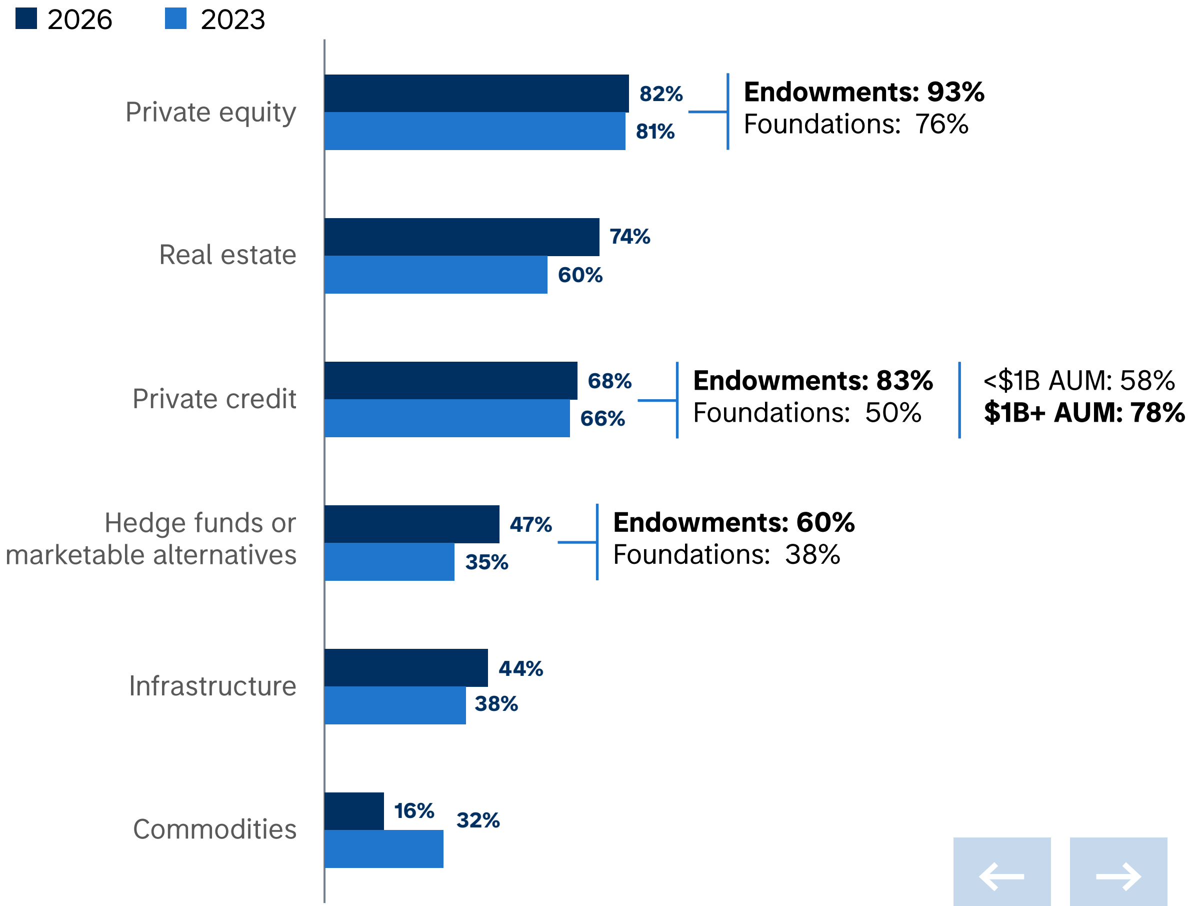
Q: Over the next 12 months, how do you expect your allocations to each of the following asset classes to change, if at all?

Real estate and hedge funds have garnered increased attention

Alternatives usage among E&Fs is widespread, with 98% reporting current or planned exposure. Private equity remains the most used strategy, while real estate and hedge funds increased meaningfully since 2023. In contrast, the use of commodities declined.

Compared with foundations, endowments are more likely to invest in private equity, private credit and hedge funds. This likely reflects endowments' tendency to coalesce around the well-publicized examples of mega-sized endowments such as Harvard and Yale, whereas foundations' approaches tend to vary widely by type, approach, or spending needs.

Alternatives Products Use/Plan to Use



Q: What alternatives do you use / plan to use? (Among respondents who use alts or plan to in next 12 months.)

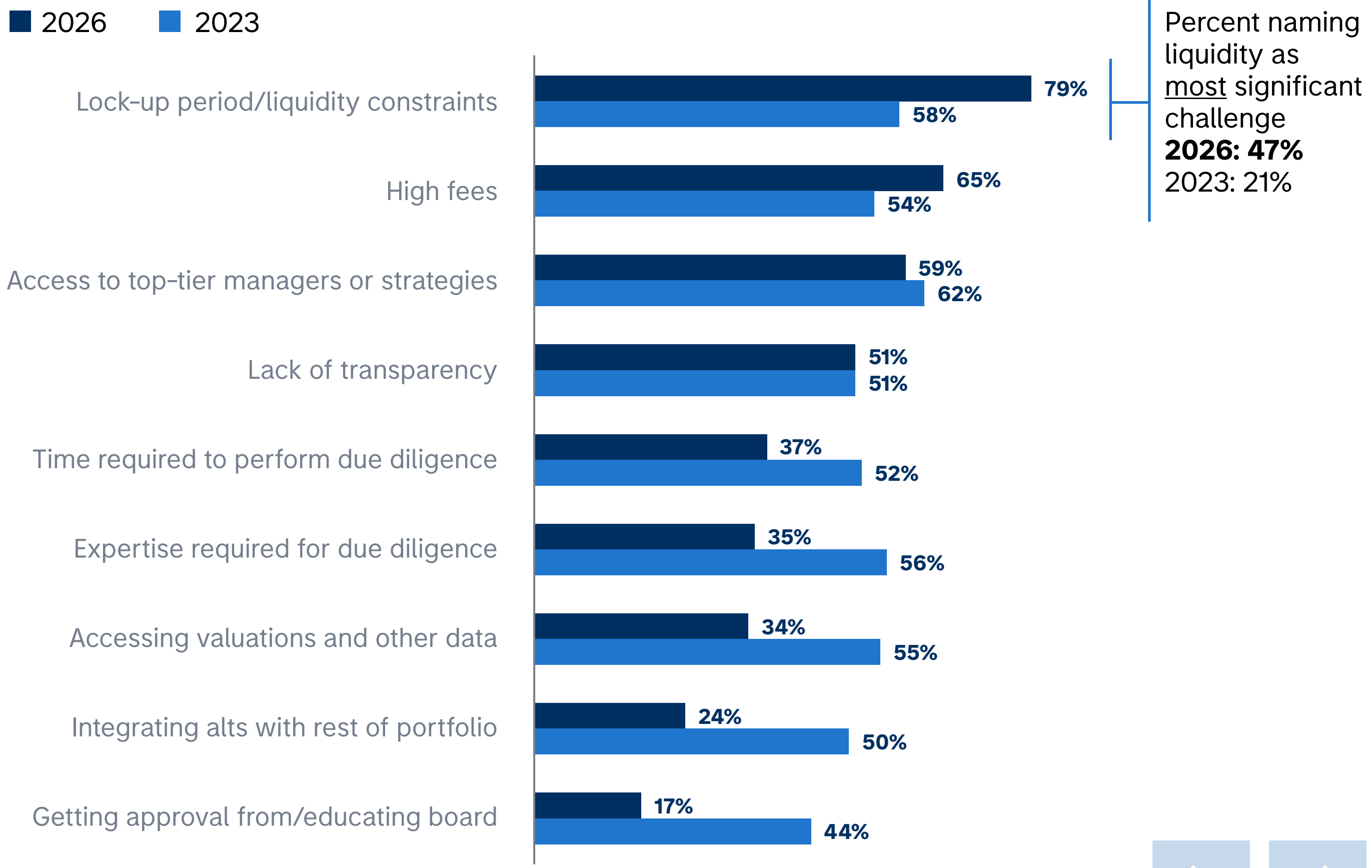
Liquidity replaces access as the primary alternatives challenge

Alternatives' large and growing role in E&F portfolios has thrust liquidity to the forefront of organizations' concerns. Nearly half of respondents (47%) named liquidity as the single greatest challenge of using alternatives, up from only 21% in 2023. This shift reflects heightened sensitivity to spending needs and cash flows.

Meanwhile, concerns about due diligence, portfolio integration, and board approval all saw significant declines.

This shift underscores how the maturation of alternatives programs has shifted organizations' focus from navigating the front end of investing in alternatives to the ongoing management of these illiquid investments.

Significant Challenges to Using Alternatives



Q: Which of the following are significant challenges to using alternative investments?
Q: Which one of these is the most significant challenge to using alternative investments?

Organizations are shifting away from standard benchmarks

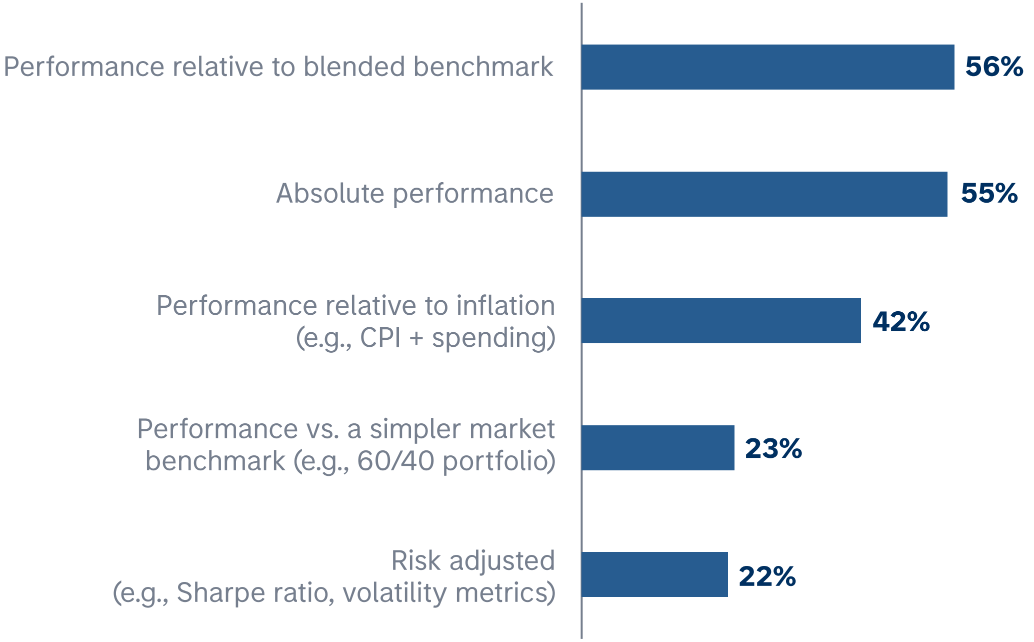
Measuring performance is an essential aspect of an effective investment program. Blended benchmarks and absolute performance were the approaches most often used by E&Fs.

Nearly three-fourths of organizations use at least two benchmarks, and larger organizations tend to use more benchmarks than their smaller peers.

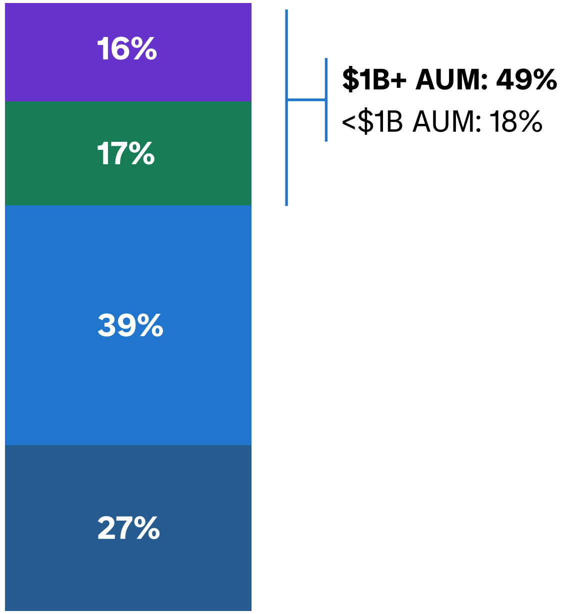
This reliance on multifaceted performance frameworks shows that organizations are seeking benchmarks that better align with their increasingly diversified and less liquid portfolios.

Ranking of Portfolio Performance Measures

Percent ranked #1 or #2



Number of Portfolio-Level Benchmarks Used



Q: Which of the following performance measures are most important for evaluating your portfolio?
Q: How many portfolio-level benchmarks does your organization use?

Spending and liquidity top list of portfolio risks

Liquidity risk and potential spending shortfalls have risen to the top of portfolio risk considerations. This heightened focus reflects the combined impact of larger alternatives allocations and uncertain fundraising and distribution environments.

Organizations also remain attentive to valuation uncertainty, manager-specific risks and governance-related challenges.

The findings suggest a shift toward more practical, outcome-oriented risk management, emphasizing near-term liquidity and spending resilience alongside traditional market and investment risks.

Top Portfolio Risk Considerations

Percent ranked #1 or #2

Q: What portfolio risks are most important or relevant for your organization?

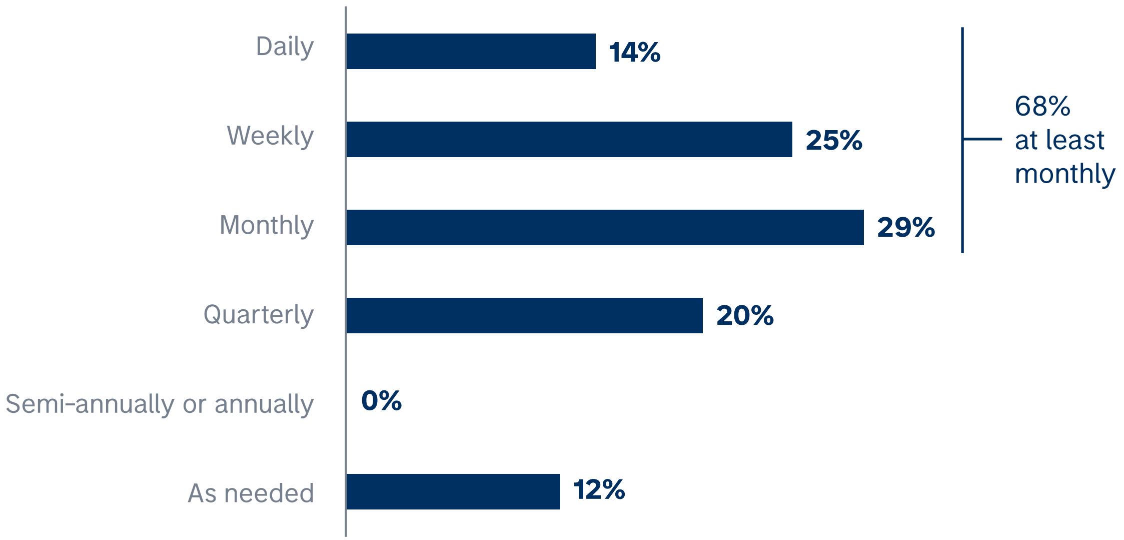
Portfolio liquidity is regularly monitored, but often not codified in policy

Managing liquidity becomes increasingly important as alternatives represent a bigger share of E&F portfolios. Respondents' practices reflect this, with more than two-thirds assessing liquidity at least monthly. Many organizations are using a mix of monthly "flash reports" and comprehensive quarterly reviews to balance timeliness with depth.

Despite this focus on measurement, liquidity risk is often not formally codified in investment policy statements (IPSs). About two-in-five respondents report that their IPS does not explicitly address liquidity parameters such as minimum liquid holdings, lockup limits or capital call planning.

This highlights a potential gap between monitoring practices and formal governance frameworks, suggesting that organizations can better align policy documentation with the realities of managing more illiquid, alternatives-heavy portfolios.

How Often Portfolio Liquidity is Monitored/Assessed



Does IPS Explicitly Addresses Liquidity Risk?

Yes 59%

No 39%

Not Sure 2%

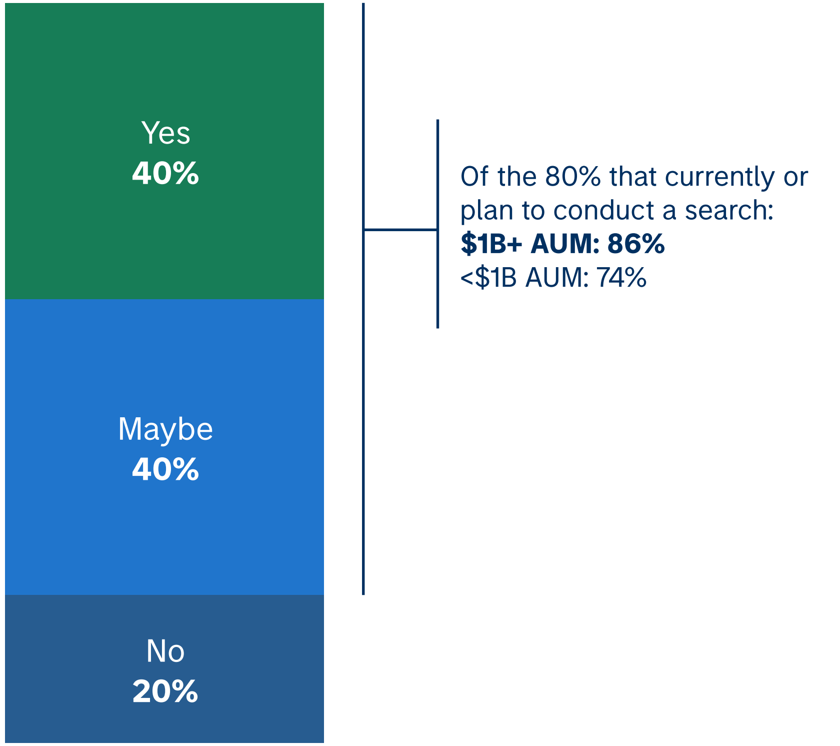
Q: How often is portfolio liquidity monitored or assessed?
Q: Does your Investment Policy Statement explicitly address liquidity risk parameters (e.g., minimum liquid holdings, lockup limits, capital call reserves)?

Most organizations are—or may soon be—searching for new managers

Four-of-five E&Fs are executing or planning to conduct an external manager search over the next 12 months. Larger organizations are more likely than smaller ones to engage in manager searches, given large E&Fs' more robust internal resources and greater capacity to evaluate opportunities. These findings suggest that manager oversight, proactive portfolio management and access to new strategies remain priorities, particularly among higher-AUM organizations.

The percentage of organizations that are not planning a search ticked up to 20% from 13% in 2023. Relatively strong equity market returns over the past three years are likely contributing to this increased satisfaction with the status quo. An extended market pullback, however, could spur more E&Fs to evaluate their manager lineups.

Currently or Planning to Conduct External Manager Searches Over Next 12 Months



Q: Are you currently conducting or do you plan to conduct external manager searches over the next 12 months?

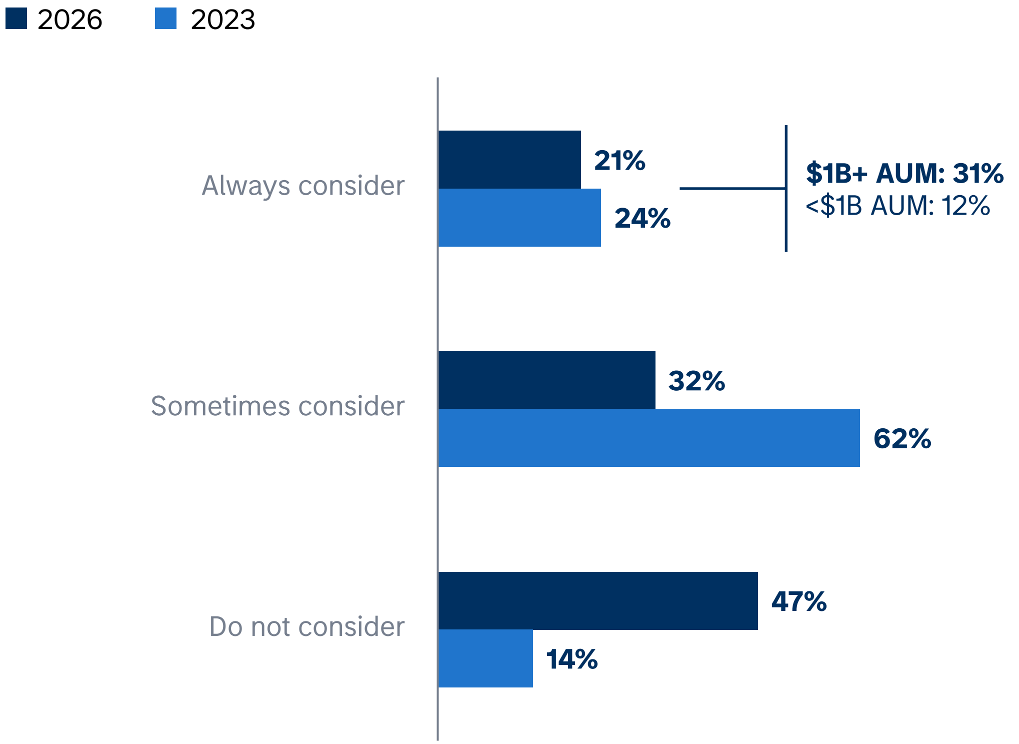
E&Fs reflect broader deemphasis of values-aligned investing

The shift away from various forms of values-based investing in recent years has been well-publicized—and the actions of E&Fs reflect this broader trend.

The percentage of respondents who do not consider ESG, impact or mission-aligned factors in their investment decisions more than tripled since 2023. This suggests a cooling of values-aligned approaches amid pushback from investors, regulators and politicians, as well as market uncertainty.

Larger organizations remain more likely to consistently incorporate values-aligned investment considerations, reflecting their wider capital base, greater resources and capacity to evaluate and implement these strategies.

Consideration of Values-Aligned Investing



Q: How often is ESG, impact investing and/or mission-aligned investing a consideration in your organization’s investment decisions?

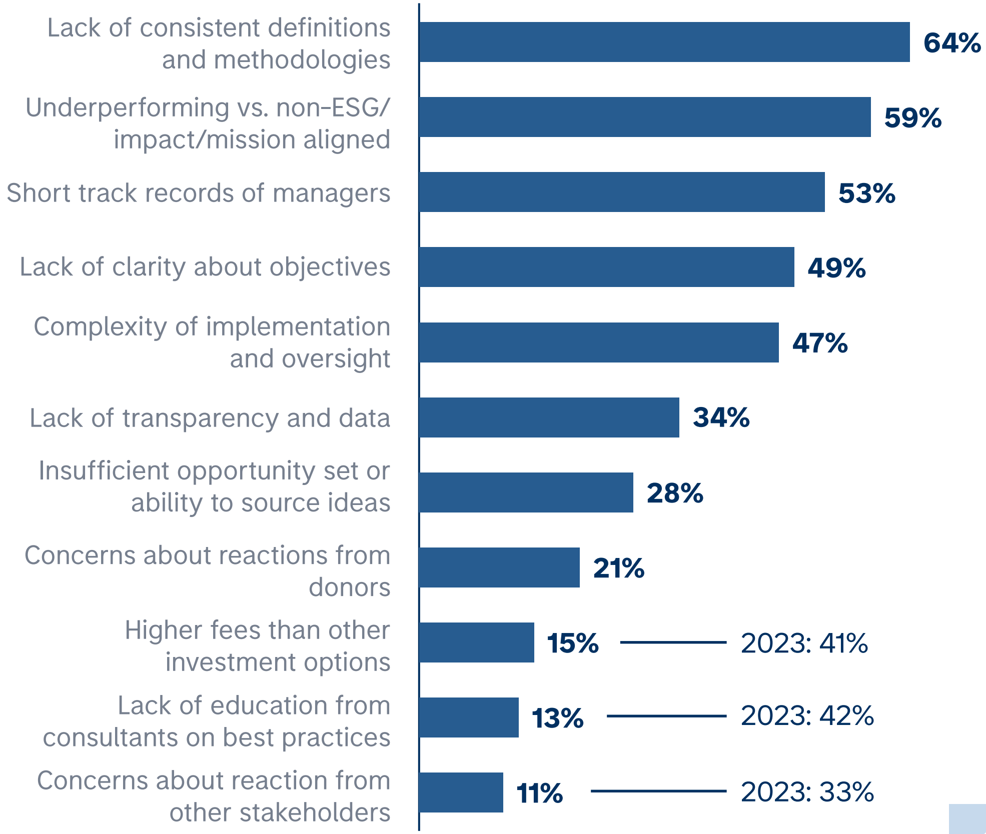
Top values-aligned concerns hold steady

Among E&Fs that continue to consider values-aligned investment approaches, their top concerns are largely unchanged since 2023. Once again, inconsistent methodologies and potential performance trade-offs are the top concerns.

Conversely, concerns related to fees, education, and stakeholder reactions decreased significantly.

Taken together, these changes suggest that, among these investors, some executional aspects remain unresolved while there has been progress in other areas.

Concerns About Values-Aligned Investing



Q: Which of the following are significant concerns your organization has about ESG, impact or mission-aligned investing? Select all that apply. (Among respondents that always/sometimes consider ESG/impact/mission-aligned.)

SECTION 2

Governance, Staffing and Consultant Relations

While portfolios and markets have undergone significant changes, organizations' governance practices and consultant engagement models have remained consistent.

More organizations now have investment committees

Investment committees (ICs) play a vital role in contributing to the financial health of E&Fs, particularly as complex, illiquid investment vehicles play a larger role. Thus, it is encouraging that the percentage of organizations without a formal IC decreased from 18% in 2023 to 9%.

Learn more about effective investment committees:
To dive deeper into an investment committee's responsibilities and the best practices of successful committees, download our e-book, Nonprofit Board's Guide to Building an Effective Investment Committee.

Number of People on Investment Committee

2-4	5-9	10 or more	N/A, do not have an IC
23%	**56%**	**12%**	**9%**
Mean by size	<$1B AUM: 5.6	$1B AUM+: 7.1	2023: 18%

Frequency of Investment Committee Meetings

Monthly	Quarterly	Semi-Annually	No set cadence	Other
9%	**78%**	**8%**	**3%**	**2%**

Q: How many people are on your organization's investment committee (IC)? (Among respondents that have an investment committee.)
Q: How often does the investment committee meet? (Among respondents that have an investment committee.)

Alignment on portfolio evaluation has room for improvement

Effective governance and oversight of an E&F investment program requires strong alignment within the investment committee on how the portfolio should be evaluated.

More than 80% of respondents say they are fully or mostly aligned on that front, and endowments report higher levels of full alignment than foundations.

The findings suggest that while most committees have a workable degree of agreement, there remains room for improvement in clarifying approaches and ensuring consistency.

Investment Committee Alignment on How Portfolio Should be Evaluated

Fully Aligned	Mostly Aligned	Somewhat Aligned	Not Aligned	Not Sure
29%	**52%**	**16%**	**2%**	**1%**
Endowments: 35% Foundations: 17%	Endowments: 45% **Foundations: 67%**			

Q: To what extent is your investment committee aligned on how portfolio performance should be evaluated?

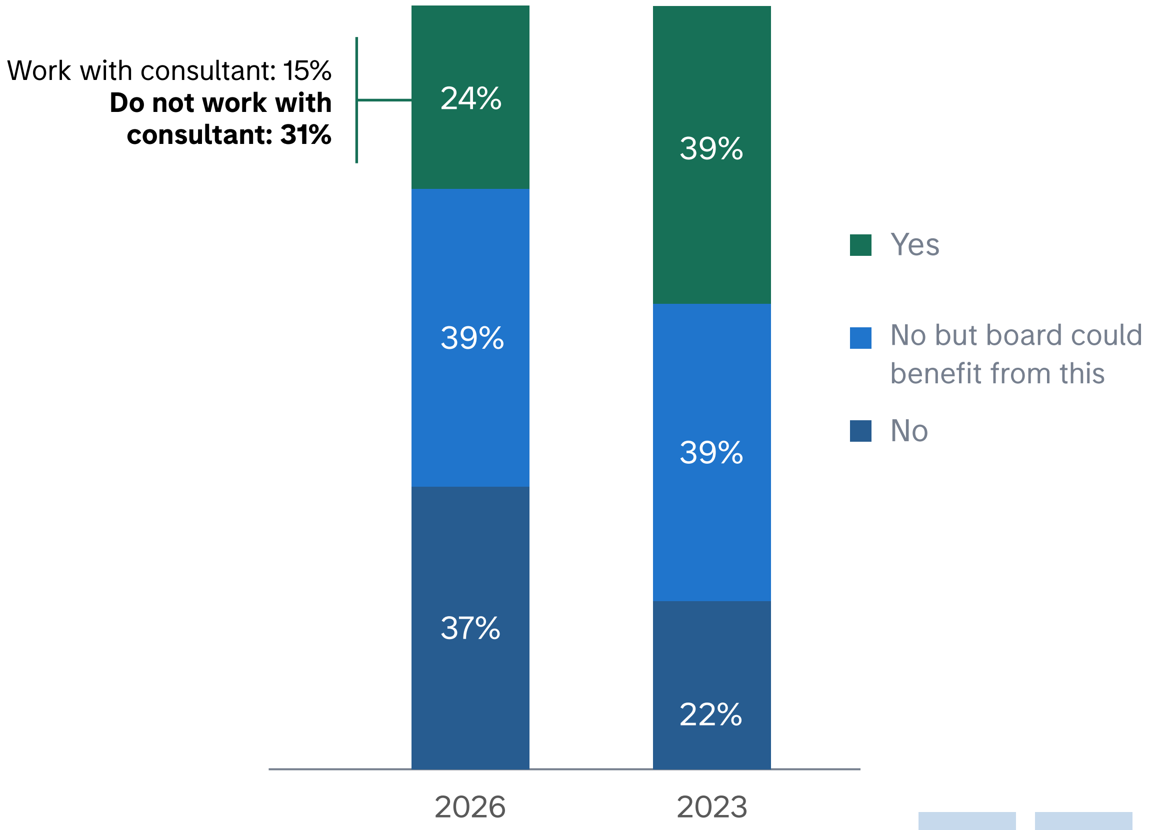
Formal board investment training is less prevalent

Given the increased reliance on private markets and illiquid vehicles, it is surprising that the percentage of E&Fs that have formal investment training for board members declined sharply from 2023.

Training can help boards fulfill their fiduciary duties by equipping them to:

- Understand how investments are aligned with their organizations' missions
- Monitor and evaluate how investments are being managed as they oversee ICs and/or investment policy statements
- Stay up to speed on the changing investment landscape

Have Formal Investment-Focused Training Program for Board Members



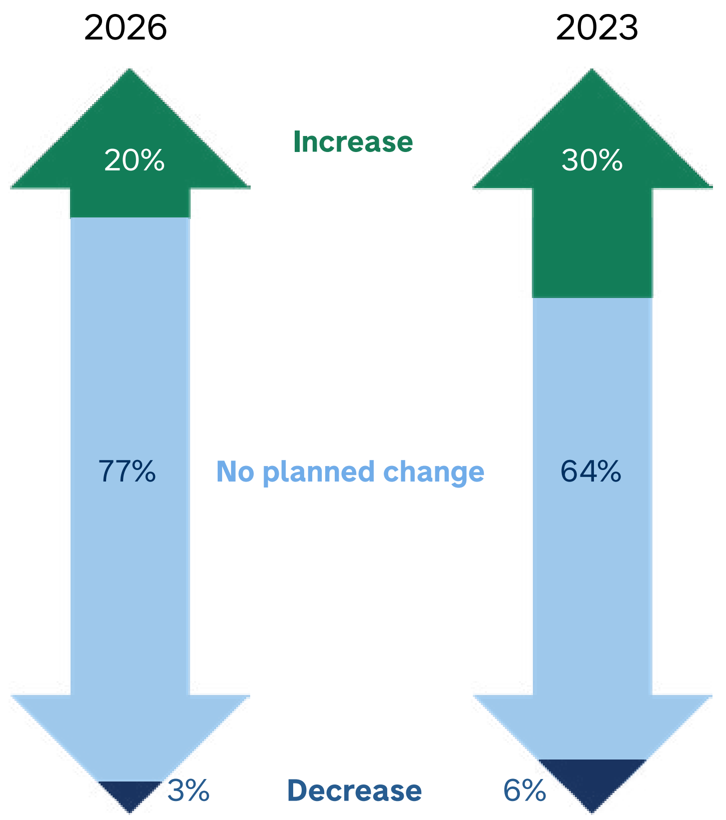
Q: Does your organization have a formal investment-focused training program for board members?

Fewer organizations plan to increase investment teams

The proportion of E&Fs planning to increase the size of their investment teams has declined meaningfully since 2023. This indicates that many organizations expect to manage the demands of increasingly complex portfolios with existing team structures rather than through headcount expansion.

As a result, E&Fs will need to find ways to be more efficient in how they manage portfolios and coordinate with the organization's board and operating team.

Expectations for Investment Staff Size Over Next 3 Years



Q: How do you expect the size of your investment / finance staff to change, if at all, over the next three years?

Consultant relationships are becoming more common—and enduring

E&Fs are increasingly working with consultants to support their investment programs. In addition to core activities, such as asset allocation, manager selection, IPS development, and spending-policy analysis, consultants can support boards in myriad ways, including board education and donor engagement.

Larger organizations are significantly more likely to engage a consultant. While smaller organizations may feel that the size and complexity of their portfolios may not necessitate consulting support, the scope of these relationships can be adapted to meet each organization's needs and budget.

Consultant relationships have also become more durable. More than three-quarters of organizations have worked with their current consultant for six years or longer, and the average length of these relationships increased more than two years since 2023.

Work With External Investment Consultant

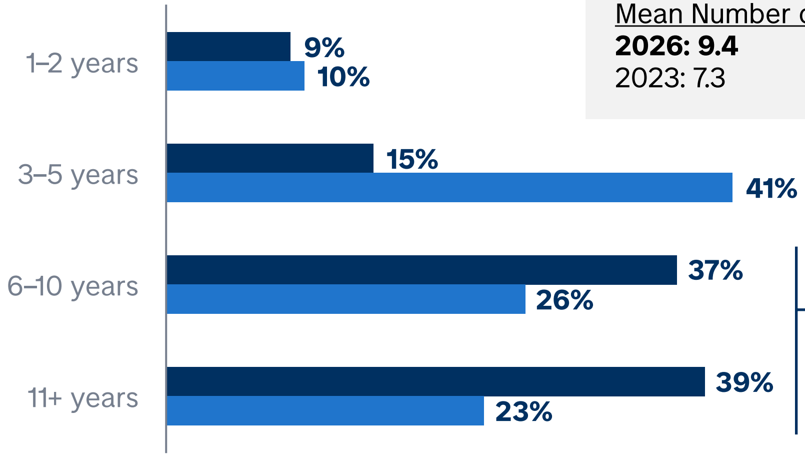
2026: 46%

2023: 39%

<$1B AUM: 37%
$1B+ AUM: 55%

Years With External Investment Consultant

■ 2026 ■ 2023



Mean Number of Years
2026: 9.4
2023: 7.3

6+ Years
2026: 76%
2023: 49%

Q: Do you work with an external investment consultant?
Q: How long have you worked with your current investment consultant? (Among respondents that work with external consultant.)

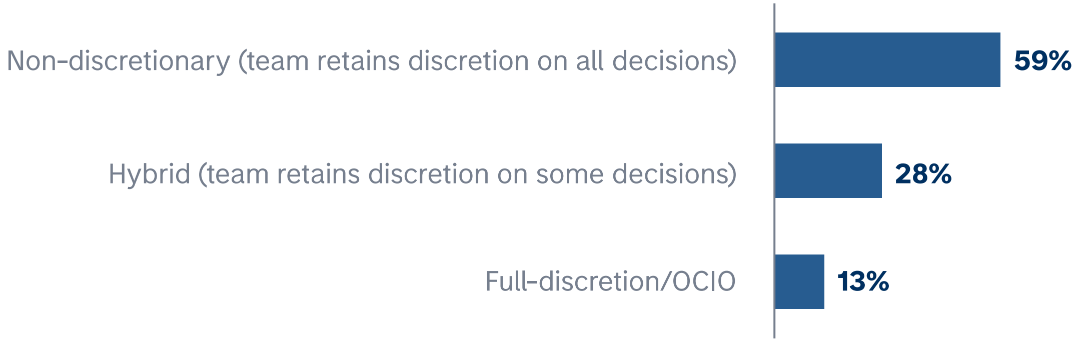
Consultant engagement models remain mostly non-discretionary

Identifying the right type of consulting engagement model—non-discretionary, full discretion or something in between—is a critical decision facing E&Fs.

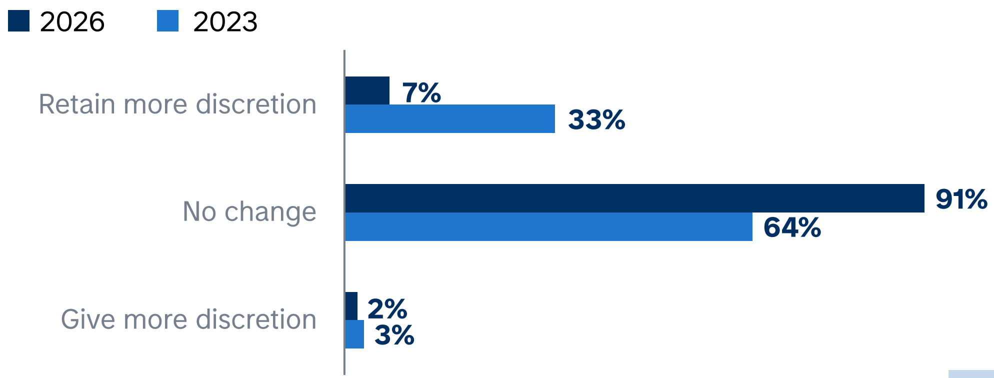
As was the case in 2023, retaining full decision-making authority through a non-discretionary consultant model remains the most common approach among E&Fs.

Most E&Fs are satisfied with their current model, as less than 10% plan to make changes over the next three years. This reflects a significant shift from 2023 when one-third of organizations expected to retain more discretion—suggesting that those changes to relationships have already taken place.

Consultant Engagement Model



Anticipated Change, if Any, to Engagement Model

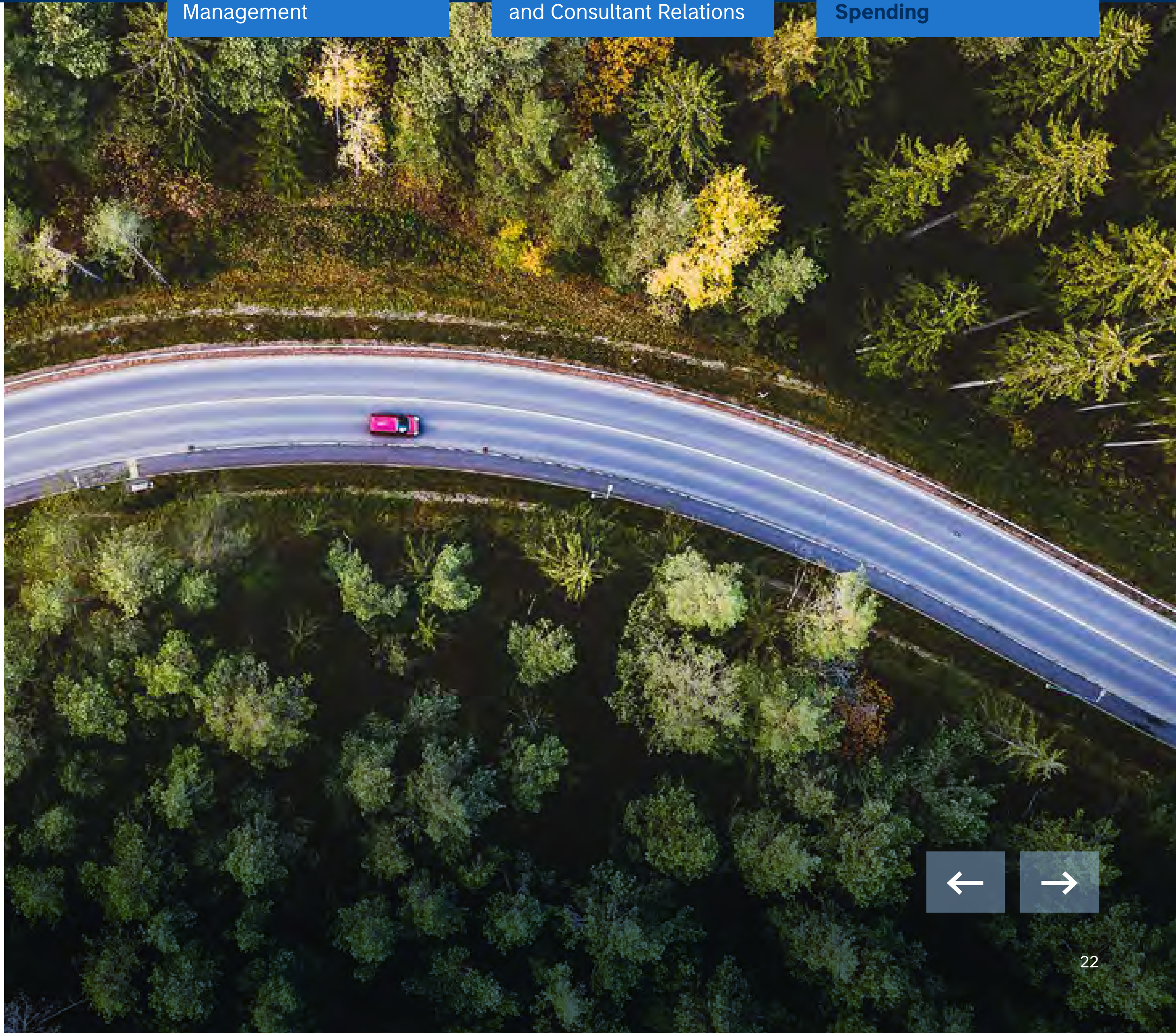


Q: What engagement model do you use with your investment consultant? (Among respondents that work with an external consultant.)
Q: How, if at all does your organization plan to change its consulting engagement model over the next three years? (Among respondents that work with an external consultant.)

SECTION 3

Fundraising and Spending

Organizations are optimistic that a favorable fundraising environment can help offset rising spending pressure.



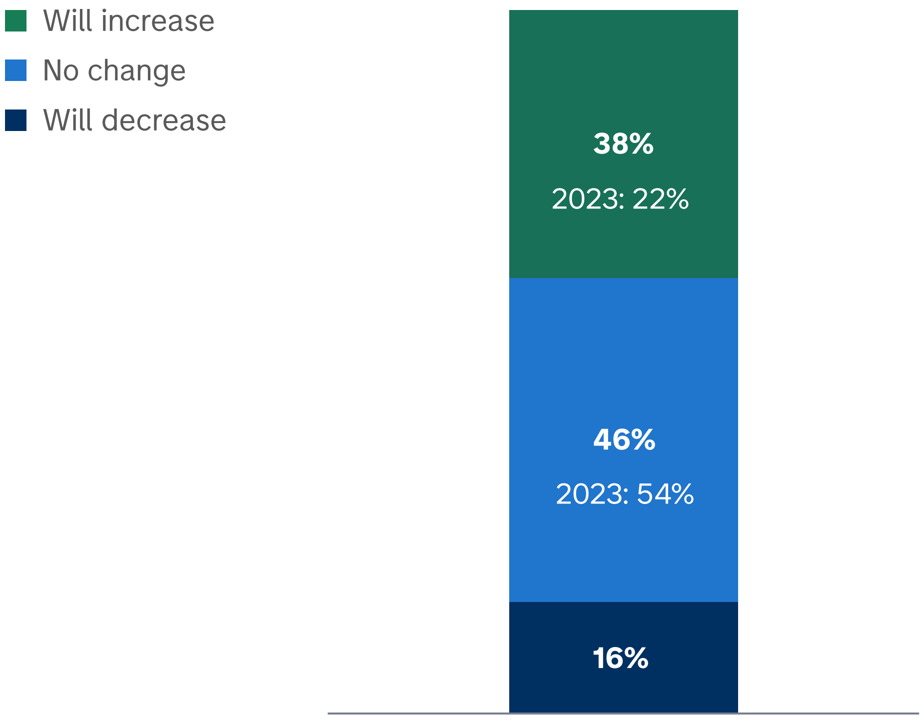
Fundraising optimism heading into 2026 tested by Q1 market volatility

At the time of the survey, respondents expressed optimism about the giving environment heading into 2026. More than a third (38%) expected donations in 2026 to exceed donations in 2025. Three years ago, only 22% of respondents expressed this confidence about the coming year.

The events of the first quarter of 2026, however, have likely dampened this confidence. The war in the Middle East and resulting surge in oil prices, along with dwindling expectations that the U.S. Federal Reserve will cut interest rates in 2026, pushed equity markets into correction territory for the first quarter.

Market volatility in early 2026 highlights the importance of ensuring the investment strategy adapts to shifts in the fundraising environment.

Expected Donations Compared to Prior Year



Q: How do you expect your organization’s 2026 donations to compare to 2025?

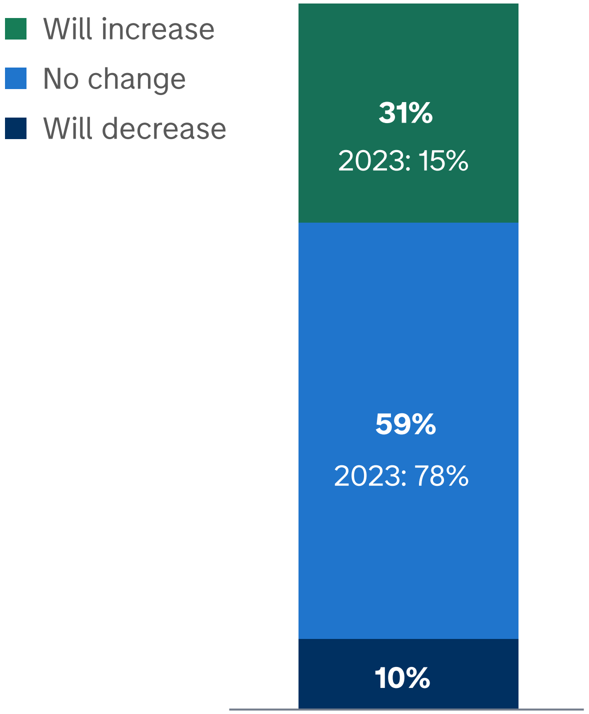
E&Fs brace for higher spending demands

Like consumers, endowments and foundations are operating in an environment marked by persistent inflation. Nearly one-third of organizations (31%) anticipate that spending will increase in the next three years—more than double the percentage that felt this way in 2023 (15%).

Rising spending demands will place additional pressure on portfolios to generate returns and liquidity, particularly if the Middle East war results in protracted economic and market disruptions.

These demands are particularly acute for organizations that use their portfolios primarily to fund operations. Reducing operating expenses is much more challenging than reducing the size of grants.

Expected Change to Spending Over Next 3 Years



Primary Expenditures for Investment Portfolio

Programming or operations
53% (56% in 2023)

Grantmaking
41% (20% in 2023)

Roughly equal between the two
6% (24% in 2023)

Q: How do you expect your organization’s spending rate to change, if at all, in the next three years?
Q: What is the primary expenditure for your investment portfolio?

Considerations for Endowments and Foundations

Key issues raised by the research

Alternatives are now central, but liquidity has become the defining constraint

Alternatives have surpassed public U.S. equities as the largest portfolio allocation and are now nearly universal in E&F portfolios. But the slowing pace of reallocations suggests the build-out phase for alternatives is largely complete, shifting organizations' focus to ongoing liquidity management and portfolio resilience.

Governance and resources must keep pace with portfolio complexity and risks

As portfolios and benchmarking frameworks grow more complex, internal support has not kept pace. Fewer E&Fs are prioritizing board training or planning to expand staff, and investment committee alignment remains uneven. To bridge this gap, more organizations are relying on external investment consultants and maintaining those relationships for longer.

Optimistic fundraising outlook contrasts with rising operational pressure

If geopolitical conflict undermines E&Fs' expectations for stronger fundraising in 2026, investment portfolios will face even greater pressure to support organizations' rising spending and liquidity needs. Agile portfolio management, especially in terms of handling illiquidity risk, will be paramount in this challenging environment.

About the Survey

In January 2026, Morgan Stanley surveyed investment decision-makers at 100 endowments, foundations and other nonprofit organizations.[1] This is our second survey of these groups, with the first conducted in May 2023.

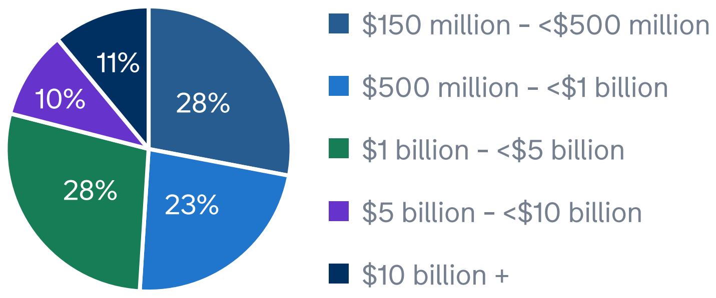
Survey respondents represent organizations with at least $150 million in AUM, with half representing an organization with more than $1 billion.

Respondent Roles

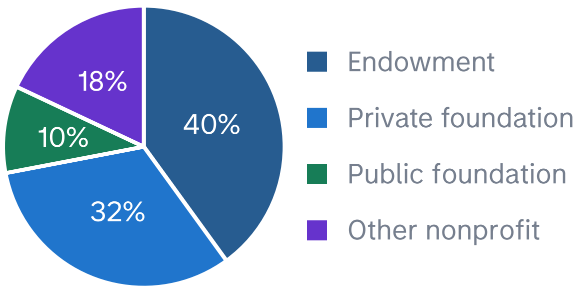
Respondents primarily included lead investment decision-makers, portfolio managers and others involved in portfolio lineups, and board members.

Respondent Characteristics

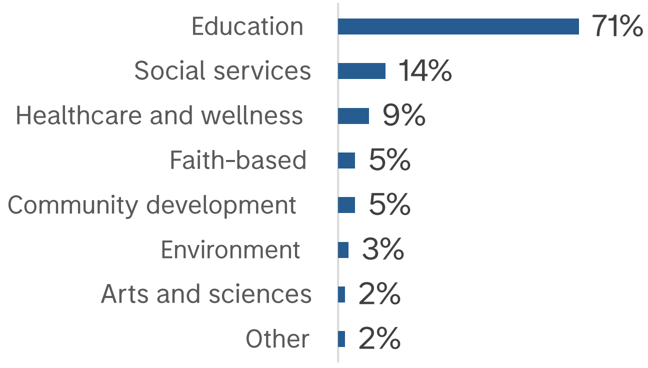
Organization Assets Under Management



Type of Organization



Sector/Interest Area[2]



[1] The survey was conducted by independent research firm 8 Acre Perspective. Morgan Stanley was not identified as the research sponsor. [2] Base: Endowment or nonprofit (n=58). Totals exceed 100% because some respondents selected multiple categories.

Morgan Stanley Consulting for Endowments and Foundations

Our experience with endowments and foundations

We are dedicated to aligning E&Fs' investment goals with their missions. With more than 50 years of experience serving public and private foundations and endowments, Morgan Stanley understands the challenges of balancing fundraising, grantmaking and market volatility.

Our specialized E&F practice helps organizations navigate the governance, performance oversight and risk management challenges they face. Our endowment, foundation and nonprofit clients represent more than $61.3 billion in assets.

Deep Institutional Consulting Resources and Experience

We combine local knowledge, experience and global resources to help our clients make informed, confident investment decisions.

$868 Billion
in total institutional assets under management

50+ Years
of experience advising institutional clients

300+ Consultants
serving institutional clients

Data as of Dec. 31 2025

Access to One of the Industry's Largest Alternatives Platforms

We offer an array of private markets and other alternative strategies with top managers through the Morgan Stanley Investment platform.

Morgan Stanley Alternatives Capabilities

45+
year history

$279 Billion
in client assets under management

~230
alternative investment funds available

~70%
of new offerings that are first look, exclusive or offer favorable economics

Data as of June 30, 2025

Morgan Stanley

Let’s Talk

We look forward to starting the conversation on how we can help.

instlconsulting@morganstanley.com
www.morganstanley.com/ics

Methodology

Phone survey among 100 endowments, foundations and other nonprofits. Respondent qualifying criteria:

- Part of team that makes investment decisions at their organization
- Organization aum $150 million+
- <$1Bn: N=51; $1Bn+: N=56

Data collection occurred during January 2026; Morgan Stanley was not identified as research sponsor. Statistical testing was done at the 90% confidence level. 8 Acre Perspective, an independent research firm, conducted the research.

Disclosures