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The Endowment Model: Building Resilient Portfolios for an Enduring Mission

A Commonfund Viewpoint

Every private and community foundation exists to serve a purpose that outlasts any single market cycle. Its endowment is not simply a pool of capital; it is the financial engine that funds grantmaking, sustains operations, and carries a mission forward across generations. This perspective may be difficult to maintain when parts of the portfolio lag others, but the long-tested "endowment model" can be an anchor to tether short-term decision making to long-term missions.

Drawn from the 2025 Council on Foundations–Commonfund Study of Investment of Endowments for Private and Community Foundations® (CCSF) | Calendar Year 2025

Every private and community foundation exists to serve a purpose that outlasts any single market cycle. Its endowment is not simply a pool of capital; it is the financial engine that funds grantmaking, sustains operations, and carries a mission forward across generations. Because that mission is meant to endure, the way a foundation invests matters enormously—not just in any given year, but over decades. This perspective may be difficult to maintain when parts of the portfolio lag others, but the long-tested "endowment model" can be an anchor to tether short-term decision making to long-term missions.

Private equity and venture capital offer one recent example: distributions, exits, and fundraising have all slowed markedly since 2021. Some committees, faced with muted results, may be tempted to de-risk private strategies and re-enter once conditions improve, but this is precisely the short-term, performance-chasing instinct the endowment model is built to resist. Every asset class moves through cyclical and structural swings; a hard stretch for private investments today no more invalidates the long-term case for holding them than a strong stretch would justify over-allocating to them. This is the essential logic behind the "endowment model" of investing, and why disciplined asset allocation and diversification, maintained through both favorable and unfavorable cycles, remain a foundation's most important investment decisions.

WHAT THE ENDOWMENT MODEL IS—AND ISN'T

The endowment model is often associated with large university endowments, but its principles apply just as directly to private and community foundations, whose obligation to perpetuity (or near-perpetuity) is, if anything, even more explicit, given payout requirements and charitable mandates that leave little room for interpretation. Commonfund, which has worked with nonprofit long-term investors for more than five decades, builds its approach as resting on three principles: a bias toward equity-oriented growth assets, meaningful diversification across and within asset classes, and the disciplined use of less liquid strategies to capture a long-term illiquidity premium available to investors who don't need immediate access to all their capital. These work together: an equity bias captures the long-term premium of global economic growth; diversification spreads that growth engine across asset classes, geographies, and strategies so no single event can derail the portfolio; and a long time horizon—the one advantage a perpetual foundation has that most investors don't—means that the endowment holds strategies that trade patience for higher expected returns.

It is worth being precise about what the endowment model is not. It is not a set of rules for predicting which asset class will do best next quarter and is certainly not an incentive to chase last year's winning sector. In effect, it is built around not reacting to headlines or short-term price swings. Decisionmakers cannot control the external forces that move markets day to day, but they can control their institution's asset allocation—and that allocation, set deliberately and revisited through a long-term lens, is what allows a foundation to capture what has long been called investing's "last free lunch": diversification. The model succeeds not because any one component wins every year, but because the combination reduces the odds of catastrophic loss – and for foundations, failure to provide sustainable support in pursuit of mission – while positioning the portfolio to compound over time.

ASSET ALLOCATION AS THE CENTRAL DECISION

Among all the choices an investment committee makes, none carries more weight than strategic asset allocation. Commonfund describes it as the single most important decision affecting a portfolio's long-term performance and risk—more important than manager selection, tactical adjustments, or timing entries and exits. The process deserves board-level rigor, reflecting the foundation's own return objectives, risk tolerance, liquidity needs, and indefinite time horizon.

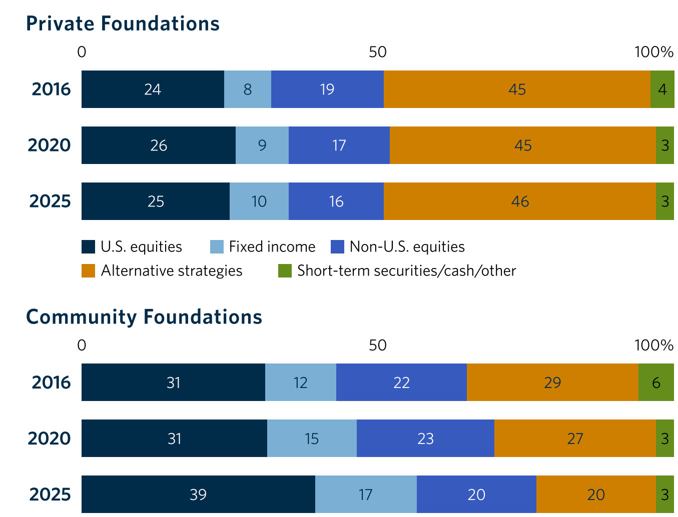
Once set, the discipline lies in maintaining it—rebalancing when markets push the portfolio off target, rather than abandoning the plan when performance feels uncomfortable. Rebalancing is not a bet on where the markets are headed; it is mechanical enforcement of a long-term plan, set before anyone knew how markets would perform—the opposite of trying to time the market.

This Study shows that foundations understand this: while a majority of foundations rebalanced their portfolios in 2025 (81 percent of private foundations and 84 percent of community foundations did), more than 90 percent of both foundation types utilize a rebalancing policy. These policies often ensure allocations remain within a pre-determined value range rather than short-term reactions.

DIVERSIFICATION: THE DISCIPLINE THAT MAKES THE MODEL WORK

Diversification's power lies in combining assets whose returns are not driven by the same forces at the same time. A well-diversified endowment does not merely spread money across stocks and bonds—it draws on public and private equity, fixed income, real assets, and other strategies with different return drivers, so weakness in one area can be offset by strength in another. Over a full market cycle, this has historically let diversified, long-horizon portfolios capture equity-like growth while dampening the severity of drawdowns. That doesn't mean every asset class contributes positively every year—some will lag, sometimes for years—but the point was never to maximize each year's return. It is to reduce the odds that any single shock derails a foundation's ability to fund its mission over the long run. It is with this in mind that foundations have maintained their steady, diversified approach to asset allocation over time: private foundations' allocations have only changed 1-2 percentage points over the past decade, while there have been wider shifts among community foundations.[1]

TOTAL PRIVATE AND COMMUNITY FOUNDATION ASSET ALLOCATION STEADY OVER THE DECADE



Source: Council on Foundations-Commonfund Study of Foundations data.

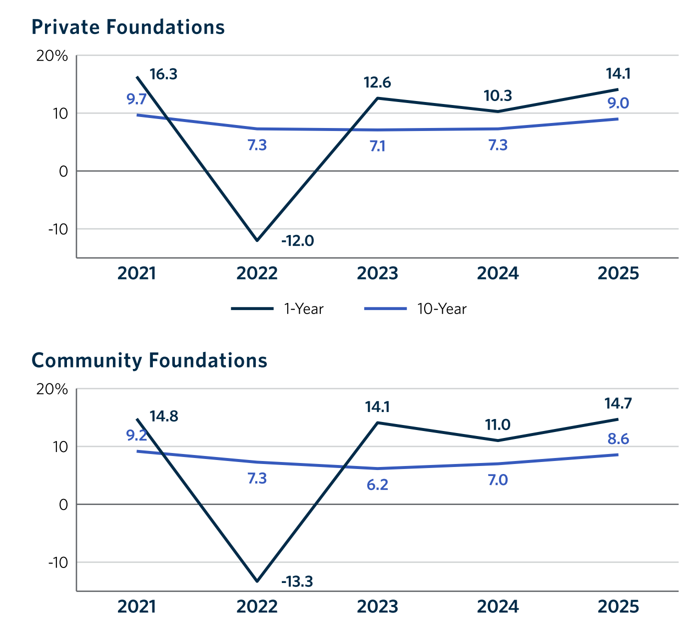
WHY "NOT TIMING THE MARKET" IS THE WHOLE POINT

Foundation boards and staff understandably feel the pull of short-term market news. A sharp downturn raises fears about next year's grantmaking budget; a sharp rally tempts committees to chase the trend behind it. But endowments that abandon a long-term allocation in response to short-term conditions typically buy high, sell low, and erode the compounding the endowment model is designed to capture.

The CCSF's own multi-year data show why single-year results are the wrong lens. In 2022, average returns for participating private and community foundations swung sharply negative; the very next year, 2023, saw a rebound of well over twenty percentage points for both groups, followed by another double-digit positive year in 2024.[2] A committee that de-risked at the bottom of that cycle would have missed much of the recovery that followed—exactly the pattern the model is built to withstand. Foundations overall maintained their positions within policy guidelines and reported consistently strong long-term returns despite near-term disruptions.

Short-term volatility is expected and, within a diversified, long-horizon portfolio, largely tolerable, because it is the multi-year trends that determine whether an endowment can keep pace with grantmaking, spending, and inflation.

SHORT-TERM VOLATILITY MAY UNDERLINE CONSISTENT LONG-TERM OUTCOMES



Source: Council on Foundations-Commonfund Study of Foundations data.

SUSTAINING THE MISSION OVER THE LONG TERM

The reason this matters is not academic. A foundation's endowment exists to generate a sustainable stream of support for grantmaking and operations, year after year, indefinitely. A spending policy set at a prudent long-term rate depends on the endowment earning returns that, over time, meet or exceed spending plus inflation. That cannot be achieved by a portfolio that swings between defensive positioning after losses and aggressive positioning after gains. It is achieved by a portfolio built around a long-term asset allocation, diversified across return drivers, and held with discipline through the inevitable periods when markets are volatile or a given asset class is out of favor.

A MODEL FOR INSTITUTIONS OF EVERY SIZE

None of this is reserved for the largest endowments. The same principles—equity bias, diversification, a long horizon—apply just as much to a $30 million community foundation as to a multibillion-dollar fund; what differs is any given institutions' liquidity and capacity constraints.

Smaller institutions have historically been underweight private markets relative to larger peers—for example, the largest private foundations allocate roughly half (52 percent in 2025) of their portfolios to alternatives strategies versus around one-fifth (22 percent in 2025) for the smallest. Closing that gap responsibly means working through three key questions: how large is the true need for return above what public markets are expected to provide?; how much illiquidity can the institution absorb without becoming a forced seller in a downturn?; and does the board have the sustained conviction to fund a diversified program across multiple vintage years, since building one out can take the better part of a decade?[3]

For institutions without in-house resources to handle manager access, fee negotiation, or cash-flow pacing, partnering with an outsourced provider is one practical way to build a disciplined program without those constraints becoming a barrier to the endowment model altogether.

CONCLUSION

The endowment model endures because it is built for institutions that, unlike most investors, have no fixed end date. For private and community foundations, that perpetual horizon is not incidental—it is the very reason the foundation exists, and the greatest strategic asset its investment committee has. Asset allocation and diversification, applied consistently through a long-term lens rather than a quarterly one, are what convert that horizon into durable, mission-sustaining returns. The lesson from the endowment model—and from the CCSF's own history of results—is not that markets can be predicted or timed, but that foundations that resist the temptation to try, and instead stay disciplined in a well-diversified, long-term allocation, are best positioned to serve the communities and causes that depend on them, in good markets and in difficult ones alike.

Endnotes

1 All data are dollar-weighted averages. Study populations year over year are not a perfect matched sample, i.e. year over year variations may be due to a variety of factors that the Study does not disaggregate.

2 Council on Foundations–Commonfund Study of Investment of Endowments for Private and Community Foundations (CCSF)

3 Commonfund, "Under Allocating to Private Strategies Could Shortchange Your Mission"

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Darien, CT 06820	Tel (203) 563-5490
New York, NY 10022	Tel (646) 348-9201
San Francisco, CA 94111	Tel (415) 433-8800
London, United Kingdom	Tel +44 (0) 20 7872 5504
Beijing, China	Tel +86 10 5759 3208
Munich, Germany	Tel +49 892 5007620

601 Merritt 7
Norwalk, CT 06851

Tel 888-TCF-Main
Tel (203) 563-5000
www.commonfund.org