

Fiducient Advisors, Nonprofit Investment Stewards Podcast

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Endowment Management and Operational Efficiencies: How Can You Achieve Both at the Same Time? — With Jeffrey Bethke

[00:00:00] Welcome to Non-profit Investment Stewards with Bob DiMeo and Devon Francis from Fiducient Advisors. Bob and Devon are passionate about helping nonprofit organizations prosper. Whether you oversee endowment, foundation or retirement plan investments, this podcast exists to help stewards improve performance, reduce costs and discover strategies that enable your charitable organization to prosper and advance its mission.

Now onto the show. Hello, and welcome back to the Nonprofit Investment Stewards Podcast. I'm Bob DiMeo, always good to be joined by co-host Devon Francis. Today, we have a guest I've known for quite a while. He's an expert in higher education and a lot more. And his approach is unique in that he helps nonprofits on two important fronts.

The first is the finance and endowment management side of the house. The other, which at times can be pushed to the back burner, [00:01:00] is operations and the crucial role they can play in sustaining an institution. We're about to jump into things like the looming demographics crisis, how to be smart about financial forecasting, and even how to optimize both finance and operations in your organization.

But first, Devon, good to be with you. How are you doing today? I'm doing well. Thanks, Bob. I am so excited to be joined today by Jeff Bethke. Jeff is the managing partner of Ingenuity Advising, which he recently founded. Before he launched Ingenuity Advising in 2021, Jeff served as the executive vice president and the chief financial officer at DePaul University, which is one of the nation's largest private universities.

When he was at DePaul, he oversaw the institution's finance and budgeting functions, along with facility operations, human resources, information technology, and a lot more. So, he wore many hats at DePaul. While he was there, [00:02:00] Jeff led the dramatic expansion of the endowment at DePaul. He directed incredibly strong operating performance at the university which actually resulted in five successive credit rating upgrades.

And he also embarked on other important initiatives, which included several massive real estate transactions and the creation of Wintrust Arena, which is where DePaul's basketball games are played and where other events occur. Jeff also serves on several boards, including Niagara University, Navy Pier in Chicago and others.

So, Jeff, welcome to the show. We are so excited to have you here. Thank you, Devon. And thank you, Bob. I could not be happier to spend a little bit of time with you today. Oh, thanks, Jeff. It's absolutely wonderful to reconnect with you. And if we can start by just having you share a bit about your recent launch of Ingenuity Advising, and really what prompted you to cross the street, if you will, and form your own practice.

That's a great question. Something I've really struggled with over [00:03:00] the course of the last a year or so as I was thinking about making this change, look, I don't regard myself as a consultant. I'm really a finance and operations inside house, finance and operations person, but I'm embarking on something that, terminology that you and your listeners know well of, the outsourced chief investment officer, OCIO.

I've taken a different spin on that and really launching an OCOO practice, outsourced chief operations officer. So, I'm really helping other institutions that don't necessarily have the resources that my DePaul University had to really deploy some expertise and get things done. And really helping those kinds of institutions achieve a new, bold vision.

That's great, Jeff. So, I think that your approach and your mindset is pretty unique in that when attempting to help a charitable organization thrive, or even just to survive, you're not only thinking about finance and endowment [00:04:00] management. You're also thinking about operations. Can you kind of unpack that concept for me?

Yeah, I'd be delighted to, I think that a little bit further background in terms of higher education, for those that are not in the field on a day-to-day basis, it's important to think about higher ed, it's that broader circle than just colleges and universities that are operating. And there's really a stewardship of a social compact in terms of the transformative power of higher education.

That for me personally is very resonant as the first in family college student, as someone whose life was utterly transformed by my higher educational experience. So, but these are challenging times. And Bob mentioned in the, at the outset, the demographic challenges, some of the demographic challenges that universities and colleges are facing.

So, change is really very much in the air for the higher education industry in the United States. So, in terms of your specific [00:05:00] mindset and approach, I mean, if you look at a university classically, the structure is you'll have, you have a president who sets the strategic vision and leads the overall institution. You'll have a chief academic officer who sets the academic vision, does program development, maintains relationships with faculty and the like. And then you'll have a chief financial officer who's charged with managing the resources of the institution.

And that CFO's function kind of breaks down further into safeguarding institution's assets, risk management and the like, budgeting, uh, which has been a relatively straightforward practice when enrollments have been growing and tuition has been going up at the rate of three or 5% a year or the like, and then capital finance, access to the capital markets.

The difference now is that in that more challenging operating environment where resources are really constrained, it forces a new way to think about and approach finance and the operating structure of the institution. So [00:06:00] it's not just about budgeting and creating a budget that's balanced. It's about managing every, every resource dollar to maximum effect.

It's not just about getting through, it's about becoming more efficient and increasing productivity, which are concepts that traditionally haven't been really resonant within, within higher education. So that's where operations come into play, not just having access to capital, but knowing how to deploy that capital to maximum effect, not just preparing a budget, but knowing how to use the scarce resources to maximum effect.

When you have 30 to 40 years of essentially uninterrupted revenue growth, it builds a certain kind of institution. It's not really equipped for the kind of change that higher education is facing now. So, for my part, I'm just trying to help smaller institutions or bold institutions build the kind of muscle mass that it takes to deploy operations in a way that will position them better for the future.

Jeff, [00:07:00] when, when we worked together on the DePaul endowment, we talked off at about, uh, something that we use at the firm, the three levers. Inflows, outflows, and then required return, you

know, what do you need the endowment to generate by way of earnings? I liked your comparison on the OCIO.

Let's do another comparison as we think about your space here. And when you think of inflows, I'm thinking about some of the really, I will just say sobering analysis I've read that you've put out on the looming demographics crisis. Can you expand on that, including how you see that unfolding for schools and maybe even other non-profits?

It's a huge challenge, particularly in the Midwest and the Northeast regions. Where do you have essentially plummeting birth rates coming out of the financial crisis? 2007, 2008, which has led to a real reduction in the number of traditional age students coming out of high school and going into college in 2021/22.

And it [00:08:00] really hits a rock bottom in 2025 and 2026. And that's a challenge that has is, many institutions are just now waking up to. I mean the demographics, again, the long view of higher education, coming out of World War II, you had the GI bill, which had a huge influx of people coming into the higher educational system and learning about the transformative power of higher education.

So that cohort, then the baby boomer cohort, and then the millennial cohort, which is actually even larger than the baby boomer cohort, and now this most recent and that population has now completed largely their higher education. And you're left with a smaller cohort, the gen Z cohort, which is causing shrinking enrollments across the board.

So, it's a real challenge for higher education in terms of looking at the traditional marketplace and thinking about how to keep revenue growth [00:09:00] without that growth in enrollment, and also without the ability to increase tuition at the rate that it has in the past. So, I guess my question in response to that is what should leaders be thinking about doing now in the face of those demographic change?

It gets back to the point about operations and how it intersects with the finances of the institution and with the overall functioning of the institution. Traditionally, we've looked at investments as a way to support operations. So, an institution has an endowment and they use the, that's largely taken from or derived from donor contributions.

And then they use the proceeds of those donor contributions to help fund the Institution. One of the approaches that we adopted at DePaul, and it's not an uncommon approach, but we really tried to maximize it at the institution, was to create a quasi-endowment that we then used institutional proceeds, so from good [00:10:00] operating results, to deposit into that and help foster growth of the overall endowment.

So, in that mode, you're not just using investments to support operations but using operations to support investments. So, it's just that old, nothing more sophisticated, and that old song about saving for a rainy day. And when is money most valuable? When it's scarce.

So trying to smooth the inflows or the ups and downs of the marketplace by using a capital structure, both investments and debt to help create a more even approach. Now, the problem with that is that it takes a long time and you have to, once you're in the teeth of a crisis, you don't have the kind of, if you haven't adopted that approach already, you don't have the ability to kind of make retrospective changes.

That's again where operations really comes into play and having to think all the more creatively about how to approach things in order to [00:11:00] continue to achieve the outcomes that you're looking for. Jeff I, as you talk about that, it has me thinking that that's a somewhat unique and somewhat progressive approach.

And I'm just curious how challenging was it to have, whether it be board members or committee members, think in that manner, to really prepare when times are good and to take in sort of these practices and put them into place when, you know, it's not top of mind for folks in good times? They, we were fortunate in DePaul and that we had a really strong board with a really focused finance committee that understood that piece of, from a growing the endowment and growing the reserves of the institution's standpoint.

The additional piece that I introduced to it earlier, as in my role as treasurer for eight years at the institution in the financial crisis of 07, 08, and beyond, was to really [00:12:00] focus on keeping debt under control as well. And that's, that's a component that a lot of people take for granted, or they lose sight of, the ways that debt and interest can really reduce the degrees of freedom of an institution in when times get tougher.

So, it's, it was a combination at DePaul of having a good progressive board of trustees that really fostered the idea of that saving for a rainy-day component, coupled with just making sure that we're using debt in the right ways.

And of course, the best definition of the wrong way to use debt is to fund the operations. So, but a lot of institutions are driven by desperation to do precisely that these days. So, that that kind of disciplined approach is makes all the difference and it, and it's all just about leadership and day-to-day just trying to make the best decisions operationally.

That benefit the current [00:13:00] situation, but then also, don't lose sight of the future state you're trying to achieve. So, Jeff, I know that you're an expert in endowment management and we'll definitely get to that in just a minute, but first, let's have your take on operations and the important role that they play for any organization that hopes to prosper.

That's a really important point in terms of the operations of the institution broadly defined. It's not just finance, but HR, information systems, facilities, really all of the back of house functions that help the institution, that provide the resources to the academics, to the faculty as they're engaged in the core work of the institution to educate students. And that operational approach, it has a great potential.

It's this concept I mentioned a moment ago about how higher education hasn't really traditionally been focused on efficiency and productivity gains, and it's introducing those kinds of concepts on specifically on the [00:14:00] operations side that really help the institution because every dollar that you spend on an operational issue is a dollar that's taken away from educating a student or a further dollar that you have to increase tuition by.

So, efficiency of operations is really key. So, you can see that in systems to speak a little bit more tangibly and how technology is used and the decisions that you make in terms of customization of technology versus broader, good, kind of good enough technology that is not mission critical, but then it's allowing the institution to get done what it needs to at productive and cost-effective manner.

So, it's, it's streamlining of all of the operational components so you can really focus the resources of the institution on what happens in the classroom and what's happening for that individual student. So, Jeff, do you have any examples that you might be able to share with us about efficiencies that you've

[00:15:00] perhaps uncovered or suggested to any of your clients that have helped them improve their operations?

I think one of the main areas is on the human resources side, where and how you're investing in staff. And recognizing that staff or support, in support of academics, but you also, so you need to invest in staff in the right way. You don't want to have faculty engaged in operational duties that are off mission.

So having tenured faculty, for instance, engaged in things that are related to them. We had a tenured faculty member at DePaul that was running our real estate department at one point. And while they, that individual had great expertise in real estate, that wasn't the main way that they could add value to the institution.

So, it's, it's taking and focusing the efforts of staff and dividing it up with the, what faculty is doing to really [00:16:00] lead the institution. That is one great example of that and making sure that you're not over investing in administrative functions, and that you're really trying to build, again, an efficient back of house function that keeps the dollars preserved to support the real purpose, mission-driven purpose of the institution, which is academics.

Thanks. Jeff. Let's shift to another area of expertise for you, and that is the endowment management for higher ed. And perhaps you can comment a little bit on the current state and role that endowments play in higher ed, and maybe even a thought on the landscape of, you hear a lot about the haves and the have-nots in this space and what schools need to do.

There's definitely a growing inequity within higher education, as it relates to just operational strength. You've got elite institutions, and you've got smaller institutions that are [00:17:00] quite prestigious, that are thriving, but then a whole host of other institutions that are increasingly challenged in terms of frankly, just competing with the state schools.

So here in Chicago, where I live, you've got a very good University of Illinois system that is able to deliver a great product and really compete strongly against private, larger private institutions that have traditionally satisfied that marketplace.

So, in terms of how that factors into the endowment, it's kind of back to that piece about where things stand and how you were able to, have been able to grow the endowment over time and how you're then using that endowment, hopefully, or ideally, to support scholarship and to support faculty in a way that that is leading to better research and an ability to recruit and build their respective academic programs.

But so many institutions are challenged, and philanthropy has played [00:18:00] a big role, but now the landscape is much more, has tightened much more severely. It's hard for institutions to go out and get those, get the academic support, or get the philanthropic support that they need to do what they need to do.

And so many, so much of that effort is now being focused on sustaining, just sustaining operation. So, it's, it's very, very challenging. And it, it made all the more so by the fact that you, it's an industry that basically, since there are no owners, there are no owners pushing for a higher return on equity.

That many of these institutions, it just comes down to a cash play. And as long as they can maintain liquidity, keep paying their, keep paying their payroll and their bills, they are going to be fine, but then, there's a long scale, a long time series degradation of the institution over time. So, uh, it, like I said, it's challenging outlook for higher education in terms of how investments are managed.

I [00:19:00] think the best way to think about that and certainly the guiding principles that have worked well for me over the years is, you know, don't, don't try to be too clever, play the long game, focus on diversification. I mean, this is all standard blocking and tackling stuff. Keep your fees under control and, and have a good, good advisor who can, who understands the needs and priorities of your organization.

And it can bring that outside expertise and flexibility that you need to, uh, to achieve the outcomes you're looking for. Yeah, absolutely. All of those things you just mentioned are things, of course, that we talk to our clients about every day. So do you have any, one of the things that Bob and I are always interested in hearing about are best practices with regard to governance and committee structure.

Do you have any best practices that you can share with the listeners thinking about kind of those things? Yeah, there's, I have found both in my DePaul experience and [00:20:00] working with my clients, that there's a real benefit to diversity of thought on your investment committee and really on all your board committees.

So, but taking investment committee, as an example, you of course want folks with fund management and investment expertise on that committee. And you want bankers and you want corporate CFOs, but you also want a fair mix of academics and folks that are mission, bring the mission-driven expertise to, to really balance out the why's and wherefores of what you're trying to accomplish from an investment management standpoint.

Another piece that is important, I think, is continuity in that committee. So too much turnover can lead to, at best, a disjointed approach to how you're managing investments, and worst, it can really inspire a flavor of the month approach to asset management that can then whipsaw the institution or the performance of the fund in ways that are, are counterproductive.

That's another piece where good [00:21:00] advisor relationship can really help. And then there's that old, I guess the other component I would offer is that old wisdom about, I think it goes something like all of our problems stem from our inability to sit quietly in a room alone. I mean, there's a concern about being too activists and trying to do too much.

And not just letting the institution or letting the fund strategy play out over time. And that coupled with preps, maybe be a little bit too much confidence in our understanding of a situation can lead to reactive decisions that then leave the fund performing worse than it otherwise would have.

Jeff, I think that's an excellent segue into this white paper that I know you're working on and it's transforming higher education, finance, and operations. I think that's the working title and you've shared some of the analysis with me, which I find very interesting. Uh, what, what will leadership at schools and maybe just nonprofits in general find most compelling in your piece?

[00:22:00] Yeah, I think that for me, over several decades of higher education experience at this point, I think there's a common perception among higher ed administrators, CFOs and the like, the inflexibility of faculty is the main impediment to change in higher ed. And that hasn't been my experience at all. Faculty are often among the most innovative folks that you have in an organization or in a, in a college.

More often, and this is the, this is the uncomfortable truth that I'm trying to bring to my clients. It's the institutional leadership and the boards themselves that often are the main barrier to change. And you've got a lot of presidents of these colleges, not all, but a lot, that came up through the system and are a product of that system.

And you've got trustees who are tied to the experience they had at the institution 20, 30, or 40 years ago. So, benefit I'm trying to bring to the clients [00:23:00] that I'm working with, first off, I'm working with clients that have a bolder vision and sort of understand that change needs to occur and have the courage to embrace that change.

And also, that they need to think about things differently and they need to challenge themselves in terms of how they're managing the institution and how the board is involved in the work of the institution. So, Jeff, as we think about wrapping up here, I thought it would be interesting to, I know that you've tackled a ton of big projects during your time at DePaul.

And of course, since launching Ingenuity Advisors, I'm sure you've worked on some really interesting things. So maybe, um, you could share one particular project that you're either most proud of, or you kind of found the most intriguing and share some of what you learned with our listeners. Sure, I'd be happy to. There's one project that really stands out for me.

I mean, as you say, Devon, I've worked on a lot of interesting and big things, but there's one that stood out for precisely that [00:24:00] reason, kind of lessons learned. And that's a 18 story, 1700 bed, we called it a super dorm, that three competing colleges got together and built in 2004. We operated it successfully for a dozen years and then monetized it via sale leaseback transaction for a record setting \$201 million in 2017.

It produced about a hundred million dollars' worth of net proceeds that were distributed to the three schools. That's a great outcome. I was in, I served as president of that project 2008 to 2017, but in terms of the lessons learned, it's not just a great outcome. There was a lot of uncertainty going into that project at the outset.

And as we worked together, it became a lesson for me, a real lesson in the power of collaboration and non-zero-sum thinking, I think we achieved something none of us could have done on our own producing tremendous value in the process. And more importantly, just building some great professional bonds and [00:25:00] relationships.

So that willingness to just sort of sit down, and this gets back to the fiduciary mindset, thinking beyond my limited, our limited scope of, of day-to-day concerns and thinking about it as a true steward of the investments of, or the assets of a long-lived perpetual entity. So it was that lesson for me, working with my counterparts at other colleges and really achieving that great outcome that really opened my eyes to how to approach working with folks in a way that's much more on the same side of the tape.

That's a great story. Thanks for sharing that with us. Um, so before we wrap up, if you could just give us a little personal nugget, uh, what's something that you enjoy doing when you do have some free time?

I'm sure there's not much of it, but what are some of your highlights? Yeah. So, in addition to this, so I'm serving, currently serving since February as the board chair of the MPEA, which is [00:26:00] the governmental entity that controls and operates McCormick Place, the largest convention center in North America.

So that's been thrilling in terms of, bringing that \$2.6 million, or 2.6 million square feet of exhibition space back online after nearly 18 months being dark. So, I'm really thrilled that we're bringing the auto show back to Chicago in July. And as also mentioned at the top, I serve on the board of Niagara University and a couple other places, but in terms of personal achievement, uh, this is something that has really struck me in the last year.

I've recently taken on, of all things, a forest restoration project in the Kettle Moraine in Southeastern Wisconsin, where there's a small community of folks engaged in restoring the Oak and Hickory forests and savannas and removing invasive species and, and bring till, brain back to the fore, the ancient trees.

Some of them 300 years old and older to really restore the natural ecology and biodiversity, help the wildlife [00:27:00] recover, very tremendously rewarding work. And I've been very, I feel very privileged to have had the opportunity over the course of the last year to really throw myself into some of that.

And moments that I can pry myself away and, and get up into the, get out into the woods. Oh, that's great. An environmentalist at heart. I love it. So, Jeff, thank you so much for joining us today. We really appreciate it, your insights and your expertise. If folks want to learn more or maybe access some of the resources that Ingenuity has to offer, how can they, uh, how can they do so?

The easiest way to find us is just on the web, uh, old school, at ingenuityadvising.com. Jeff, we want to thank you so much. Appreciate your insights and sort of your unique dual role that you're applying for higher ed and nonprofits in general. Really appreciate it, Jeff, and good to be with you. Thank you, Bob.

And thank you, Devon. It's been a great pleasure. Thanks so much to our listeners as well. If you oversee [00:28:00] an endowment or a foundation, we want to share a resource called four smart moves for investment committees. It's a short but very insightful piece and we'll provide the link in the show notes.

So, to all you good stewards, thanks for investing your time to help your nonprofits prosper. We'll connect with you soon on the next episode. Thank you for listening to the Nonprofit Investment Stewards podcast. Click the subscribe button below to be notified of new episodes and visit fiducientadvisors.com for more information.

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