

Fiducient Advisors, Nonprofit Investment Stewards Podcast
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Nonprofits in Higher-Ed: Current Outlook, Opportunities, and Challenges with Rev. Dr. Brian Friedrich

[00:00:00] Welcome to Nonprofit 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.

[00:00:26] Now onto the show. Hello, and welcome back to the Nonprofit Investment Stewards podcast. I'm Bob DiMeo. Great as always to be joined by Devon Francis, our cohost. On today's episode, we circle back to higher education, including the current landscape for schools, along with some of the challenges and opportunities.

[00:00:48] I'm excited to have today's guest on the show because he not only knows a great deal about schools, I feel very confident in saying he's going to share true insights for leaders and stakeholders of a broad range [00:01:00] of nonprofits. We have an interesting and timely show in store for you, but before we jump to our guest, Devon, good to be with you.

[00:01:08] Thanks, Bob. Great to be with you. And before we get into our guest and his background, I wanted to give a little shout out to one of our most loyal podcast listeners, Frank Bera from Fairleigh Dickinson University. I had the chance to meet Frank at an EACUBO conference recently, and he mentioned that he's listened to every podcast episode.

[00:01:27] So a big hello to Frank and thank you for your support. Absolutely. So today we are so pleased to be joined by Reverend Dr. Brian Friedrich, who is the 10th president of Concordia University-St. Paul, Minnesota. Prior to returning to his Alma mater, Dr. Friedrich served as president of Concordia University, Nebraska.

[00:01:49] Over his career, he has served in roles of institutional advancement as well as administration, and also has served and continues to serve as an investment committee member over various [00:02:00] endowments and foundations and a board member for many schools and other nonprofits. In fact, way too many to list. Hopefully he'll give us some details.

[00:02:08] Both Brian and his wife are graduates of Concordia-St. Paul. So, they've effectively worked their way back home. Dr. Friedrich, welcome to the show. Well, thank you so much, Devon. Good to be with Bob and you today. Brian, it's so great to have you on the show. We appreciate your time and the expertise and insights you're about to share.

[00:02:28] You obviously have a very important role as president of university, just so that listeners have perspective on your background and insights, what other nonprofit organizations are you engaged with today? That's a great opening question, Bob. Thank you so much. And one of the things that has really been beneficial for me is to be on the other side of the table from the chief executive and to serve as a board member and to get some perspectives [00:03:00] from board membership that you don't have when you're the executive.

[00:03:03] So right now, I'm serving three other nonprofit entities. The first is Mill Neck Foundation located in Long Island, New York. I also serve as a board member with the Minnesota Private College Counsel. And then thirdly, with Concordia's athletic conference, the Northern States Intercollegiate Athletic Conference.

[00:03:30] Wow. Quite a busy man. So, Brian, we are now past the two-year mark of the onset of the pandemic. And how would you describe the higher ed landscape overall, perhaps from a few different perspectives, maybe enrollment, operations, advancement, can give us some thoughts? Sure. If I had to pick one word, Devon, that may overlay all of those different areas, it would be anxious.

[00:03:58] This is a [00:04:00] really anxious time in higher education. As you noted, we've gone through a significant time of turbulence. And now there's a lot of anxiety around this industry. I think you talked about maybe three different components, so I'll do my best to comment on each of those. And if Bob or you want to follow up thereafter, that's great.

[00:04:21] So first you said enrollment. At some level, enrollment has stabilized, um, but even within that stabilization, the trend is downward and decline. And there are some sectors of higher education that are experiencing the rate of decline and the downward trend at a more significant rate than others. All of us in higher ed are very, very mindful of the demographic cliff that's coming.

[00:04:51] Especially when we think about the traditional college age student, all of us have, I think, markers on our calendar for 2025, 2026. [00:05:00] And while we would hope and pray that the cliff is not as steep as has been suggested, uh, the reality is that is very, very unlikely. It will be as steep and significant as predicted.

[00:05:15] Uh, secondly, operations, uh, it may be fair to say that after kind of a two-year period of whipsawing, operations at most colleges and universities seem to be adjusting. One of the predictions at the onset of COVID was that higher ed is really going to struggle. I think that as an industry, we've done a really good job of being resilient of pivoting as needed and, um, kind of negating some of those who were really down on higher education's ability to do things in a quick and efficient manner.

[00:05:55] So students have been well-served. Served in a different way perhaps than [00:06:00] they had been, but in a way that I believe they really need to be better served, whether it's a hybrid model or more online options, but operations are really adjusting. And then, Devon, the third piece that you asked about was advancement.

[00:06:15] And I've really been pleasantly surprised as I've talked to colleagues at other institutions and with other organizations who've said advancement is, is really good, that the folks who love these organizations love these institutions have come forward in a significant way to support the mission of the institution and really have enabled the institutions to weather.

[00:06:37] Some of the stormy seas that we've been having navigating. That's helpful, Brian, and I like your point about operations or deliverables or the product, if you will, actually improving out of necessity. And, and so that's great to hear. And then on the advancement front, that is as well, which is a good segue into the next thing we'd like to chat with you about, and that is [00:07:00] finance and investments.

[00:07:01] And we wonder how you describe the financial snapshot for most private universities today, particularly in light of what you mentioned regarding enrollment. I think one word that could be used is challenging. It's challenging but within private higher education, there's not a standard answer for this.

[00:07:25] So some institutions, especially those that are very well endowed and have a lot of kind of market awareness, are doing very, very well. Their application pools are way up. Their ability to, again, choose from the student pool, those individuals they want to have there, is really favorable.

[00:07:50] On the other hand, institutions that are primarily dependent upon a traditional age population in a more [00:08:00] remote or rural area and have small or meager endowments are really struggling. And then, you know, there's kind of that, that mushy middle. One of the things that I believe is really important for higher education and I see more institutions heading this way is thinking about multiple revenue sources.

[00:08:19] So as they think about their student mix, their enrollment mix, they're thinking not just about undergraduate traditional age education, but they're also thinking about, uh, adult education and how an effective and efficient way can higher education primarily through online education, deliver undergraduate education to working adults.

[00:08:40] And then there's a growing trend in growth and graduate education. Be that master's level or PhD level. So, institutions like Concordia-St. Paul that have looked at their revenue streams and really diversified their enrollment [00:09:00] revenue streams are in a good position right now.

[00:09:02] So as they examine those different revenue streams, not all of them have to be growing at the same time, as long as there's growth overall. That's great, Brian, appreciate those insights. And that also serves as a segue to looking at endowments and really an important component for not only universities, but many nonprofits. Want your view on whether you feel it's more important, the role of an endowment in sustaining or improving a school's position in this environment.

[00:09:38] Yeah, that's another great question, Bob. I think one of the challenges is, institutions that are primarily tuition driven really, um, have to struggle with this because their margin is shrinking. They're limited in how much tuition can increase in any given year and because of the [00:10:00] extreme competition for traditional age students, um, the discount rate continues to decline.

[00:10:06] So the net result of sticker price, less tuition discount. That margin has gotten narrower and narrower. And, um, as institutions think about, well, how do you fill that gap? One way some institutions have fought to fill that gap is by taking a greater return from their endowment to help fill that gap.

[00:10:30] On the other hand, uh, institutions who have a better overall financial health picture are able to sustain, uh, a lower withdrawal and really continue to think about the long-term and that the endowment is there to serve not just students today, but students today, tomorrow, and far into the future.

[00:10:52] So again, I would say that many, many, um, investment committees are looking at the long-term view. [00:11:00] But there are probably a number of institutions where the pressure is so great that they have to look at their endowment as a piece of how they'll sustain their operation, how they'll continue to make their budgets work in the near term.

[00:11:14] And Brian, have you seen, at least in the institutions that you're involved with, have you seen the endowment contributing a greater portion of the overall budget? That's a really interesting question. And one, I'm glad you ask, and it will be interesting to see what kind of reaction your listeners get to what I'm going to share.

[00:11:39] But in the institutions, organizations I'm working with, there's really a bullishness for, you know, the 4%. Let's not even talk about 5%. Let's, let's focus on 4%, which kind of surprises me that, that the, the, these investment committees and boards are saying, no, let's continue to think about this long-term.

[00:11:57] Let's not be too [00:12:00] quick to ratchet up our, our spend from this kind of 4% level. That's good to hear from our perspective as well, 4%, rather than five, you know. Where there is flexibility, we always encourage our clients to, to spend less, particularly as we look out into the future and our capital market assumptions are more modest than what the markets have given us in, in recent years.

[00:12:25] So just to, to dig a little bit deeper on spending, of course you have oversight of not only Concordia's endowment, but also other nonprofits as well. Do you have any thoughts about spending now versus what spending might be in the future or what institutions should be thinking about in terms of spending beyond just the, you know, four versus 5%?

[00:12:50] Well, you know, I think in so many ways, Devon, the answer is, it depends. It depends. What are the, what are the institution's [00:13:00] immediate needs? How long will the present inflationary rise

continue? Is this short term? Is it longer term? Um, I once ask uh, an investment manager that I worked with.

[00:13:15] What is the definition of perpetuity? I'm thinking, I knew what the answer was. And that investment advisor said 20 years. And I said, well, that's not the answer I was expecting, but 20 years. So I think, I think, that was a helpful answer on the one hand, because it speaks to market trends. It speaks to the fiduciary responsibility of a board.

[00:13:37] It speaks to changing needs. If we're thinking about 20 years as opposed to a thousand years, that makes a difference in how a board or an investment committee thinks about its funds to really think about a generation. How do we want to use this endowment and leverage this endowment during the next generation, as we think about whether it's our students or other [00:14:00] outreach efforts that we have as an organization to support those who need resources now?

[00:14:05] It's not forever, but it is generational at least. Yeah, that's an important perspective. So, another thing that must be impacting universities is that interest rates have increased so substantially this year. If you look at the U.S. 10 year, it's gone from 1.63% at the beginning of the year to 2.9%. So that's really just a massive increase in a pretty short amount of time.

[00:14:29] What, if any, impact does the interest rate environment have on how a school views either the endowment or how it impacts overall operations? Oh, yeah, it, it it's huge, Devon. I just met before our conversation today with our chief operating officer and one of our sum to do is, is to renovate some parking places.

[00:14:56] And, and most of that is going to be with asphalt. [00:15:00] And now the contractors after submitting a bid are coming back and saying, hey, well, we need more. We can't, we can't do what you've asked us to do at the rate we'd first promised. So, it's a very real thing. It's a very real thing in the short term.

[00:15:14] And, and I think that coupled with institutions' inability to charge all of that inflation to tuition in our case, at some level, it almost feels like a freight train is coming down to tracks. And, and how do we, how do we mitigate the speed of that freight train coming at us? It's all over the place.

[00:15:37] So, inflation is a significant challenge in front of us, how we work through that with our investment managers, and the assets that we're investing for the long-term is, uh, is really, really a challenge. And I haven't heard, at least with the four different groups I'm working with, I haven't heard an investment manager say, [00:16:00] well, here's the silver bullet answer to that.

[00:16:03] Right. It probably gets back to what you had mentioned earlier. A lot, a lot of times it depends. Right? And I'll ask you another question. I feel like we're getting at least a two for one, maybe a three for one here, Brian, with not only your university expertise, but the other nonprofits you're serving, but let's talk a little bit.

[00:16:20] About ESG, environmental, social, governance, or SRI, socially responsible investing. And, and maybe you could just share broadly your perspective on where things stand at this point where it fits into the mix today and how you see that maybe evolving over time. You know, once again, uh, awesome topic. Great question.

[00:16:41] I think I would maybe want to start in a backwards order, Bob. So, I think maybe I'd want to start with governance first. And it seems to me that kind of the press of whether it's the constituency that donor or the board, this, uh, press for greater [00:17:00] transparency, greater clarity. Uh, I was just in an investment committee meeting with, uh, of, uh, of our board.

[00:17:06] And one of their presses was, well, we want to see more fully documented when and how often you're meeting with your investment manager. When is that? And so one of the things I've experienced in

higher education, the growing understanding of board members and their fiduciary responsibility over the last 25 years, um, that board members are taking that responsibility more and more seriously on the front end.

[00:17:36] They're asking more questions about what this fiduciary responsibility mean. How will that play out if I agree to serve as a member of the board? And then when I'm on the board, I want to see that kind of in spades from the, from the staff, from the administration. So, the governance piece is a very significant question.

[00:17:57] Then the other two, the environmental and [00:18:00] social, I think that's, depending on the institution and organization, there are some institutions and organizations where that's absolutely a laser focus and getting laser focus, whether it's from the board or their constituents.

[00:18:17] I know one of our sister institutions here in the twin cities. I was talking to the president there and she was telling me about how she felt her board's investment committee was kind of being forced by constituents to change some of their investments because of environmental and social realities. So again, I think that ebbs and flows to some extent.

[00:18:42] That said, our younger donors, we're hearing more and more from them about how important those two pieces are as they think about supporting the university or supporting some of these other organizations that I've noted. So, this is a growing area that I [00:19:00] believe boards and investment committees need to be more fully informed about. If they aren't or haven't had conversations about these items.

[00:19:08] Now's the time to do that. So let's talk a little bit about committee structure and governance, and you touched upon governance in your last answer, but just thinking big picture, some investment committees or finance committees just inherently operate very well. Do you have a sense for what the keys to success might be in assembling a really effective committee?

[00:19:33] So, Devon, I'm quite sure you don't know this about me, but my doctoral dissertation had to do with exactly this question, but in a slightly broader context and essentially the question has to do with, so what makes for effective endowment growth? And I narrowed it to research [00:20:00] within Lutheran colleges and universities.

[00:20:03] And as it is with many dissertations, the result wasn't rocket science, but essentially, the result of the research said that when a university is all on the same page from the board to the investment committee, to the staff, then good things happen. So I think there, the alignment that happens when institutions are all on board with a similar focus on endowment, what endowment's going to do, how it's going to grow.

[00:20:39] That's when finance committees or investment committees operate extremely well. When there's not alignment or not agreement, or the CFO says what I really need are dollars today, as opposed to dollars to build the endowment, then you get all [00:21:00] kinds of conflict. Because the investment committee says, hey, we need these dollars today because enough other dollars aren't coming in to fill the bucket.

[00:21:08] Or we say, you know, really what we need to be is just passively invested. Put it in the S and P, put it away, we don't even want to think about it. So when there's alignment, good things happen. When there's not alignment, the disagreements can come from any number of perspectives. Brian.

[00:21:27] That's fascinating. And I, I, I actually think I'm going to ask you to see some of your prior work on that, but I'm curious, it makes a lot of sense, right? Is everybody, you're from Minnesota, is everyone rowing in the same direction? Yes. Right. I'm just curious. And we could probably do an entire episode on, on that topic and your studies, uh, do an entire episode on that, but, but if you were to give a bumper sticker response.

[00:21:54] Or just kind of a summary. Is it, is it a [00:22:00] belief in the mission or what really creates that alignment that you speak of? Again, I don't know, uh, that there's a silver bullet answer to it. I think it starts with mission. I think it starts with mission, but then is, um, fortified with leadership, by leadership and relationship.

[00:22:21] Uh, one of the things that um, you taught me years and years ago that I've thought about ever since I heard you talk about this are the three levers. And you talked about the three levers in this way. Um, the dollars in, the dollars out, and the dollars invested, how they're invested, but I think that three lever model applies to any number of.

[00:22:47] Ways as we think about the work of investment committee, work of a board in connection with the long-term financial future, and it does have to do with mission. It does have to do with [00:23:00] leadership. It does have to do relationship. It also, again, needs three levers, the lever of staff.

[00:23:06] So the, uh, and its role, the role of volunteers and their responsibilities, the role of the investment manager in her or his role. So, I think there are multiple dimensions of this, this three-lever concept that can be so helpful. I also think, um, another set of three levers that I just made some notes on it as I thought about this question, the lever of continuity.

[00:23:32] Uh, how, how continuous is the leadership of the investment committee? How continuous is the leadership of the staff, the CFO, the CEO. How, how continuous is the education of, of staff and CEO and board? So, they're just so many parts and pieces that go into the bumper sticker. So, I don't know, Bob, maybe the bottom line.

[00:23:57] Three levers. And with them, the bumper sticker. [00:24:00] It could be. It's just so, well, we'll have to come back and revisit this because it's so insightful. And, uh, when you start talking about strong leadership combined with these other levers, really appreciate your perspective. So, Brian, as we, uh, as we come to a close, you know, we understand that the current environment is very daunting.

[00:24:20] We asked you at the beginning about the higher ed landscape, and you said, if you had to sum it up in one word, it would be anxious. Then we asked about the finances and operations and you summed it up in one word by challenging. So clearly, you know, it's a, it's a tough environment in which to be a university president.

[00:24:37] What do you think the biggest opportunity today is that facing, uh, that's facing universities and colleges? Reality. Reality. Um, the reality is, is that in many ways, the higher education model is broken. [00:25:00] That said, there's tremendous opportunity. I mean, it is so exciting to think about how higher ed can be better, different.

[00:25:11] Even more effective tomorrow than it is today. So, I think combining reality with opportunity for me presents just a really exciting future. You know, I wish I was 35 years old and I have another 30 years to, to be part of, of higher education. It's been a great 30 years past, but wow. The future is really, really exciting for those who are willing to think differently.

[00:25:37] About what they're doing and think about the power of higher education and how it can benefit and bless even more people in the future than it has in the past. I think you're right, Brian, there are tremendous opportunities and it's going to take evolution and, and, you know, perhaps some pivoting, but I think that there are great opportunities on the horizon.

[00:25:58] So before we wrap [00:26:00] things up, um, let's talk about president Brian Friedrich, the person. What brings you great joy outside of your work and your volunteer efforts? My family, my family, God has blessed Lori and me with three, uh, now adult children and two grandchildren. So, part of my passion for higher education is thinking about my grandkids and making sure.

[00:26:24] As I serve and lead, uh, for as long as I'm able, uh, that those kiddos have great opportunities as, as their mom and dad think about, uh, where they will study and how they will grow through a university experience when the time is right. Absolutely, Brian. Well, thank you so much for joining us today. You provided such great insight and expertise.

[00:26:49] If listeners want to learn more or access resources, where might they go to do that? Sure. I'm on LinkedIn. And if folks want to ping me there, that's [00:27:00] great. My email address is simply my last name, Friedrich F R I E D R I C H@csp.edu. And if you'd like to learn more about Concordia university St. Paul, our website is www.csp.edu.

[00:27:19] Great. Thank you, Brian. Again, we appreciate your time and your expertise and thanks for being on the show. Well, thank you, Devon. Thank you, Bob. So good to connect with you today. Brian, wonderful to reconnect with you. And thanks for insights on so many fronts. It really has been extremely helpful. And as always, thanks to our listeners. We know many of you oversee portfolios for your nonprofit organizations.

[00:27:42] Just a reminder that there is an endowment investment consulting section on our website. Many, many useful pieces there, and you can access it all, as well as what Brian was mentioning, at fiducient.com. So, to all you good stewards, thanks for investing time to help your nonprofits prosper. [00:28:00] We'll connect with you soon on the next episode.

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