



The right investment model for civil society organisations

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One of the enduring virtues of investment practice is its diversity – there is no single correct approach. No investment style, philosophy, asset class, or theme prevails universally. This flexibility is a strength.

Indeed, in the investment arena, strength would appear to lie in differences, not in similarities. This principle underpins our perspective.

This article is written in that spirit. It advocates for a compelling investment model for **civil society organisations (CSOs), especially not-for-profit (NFP) organisations, and endowments** – one that involves partnering with well-resourced institutional investment managers.

These managers act as stewards of capital, ensuring that funding for mission-critical work is placed on a sustainable footing, thereby reducing reliance on donations, bequests, and fundraising. Investments never sleep, helping ensure CSOs remain consistently funded.

We present this case without diminishing other viable investment models, including those offered by financial advisory groups, private banks, and asset consultants. We recognise that CSOs may desire to have a financial adviser or asset consultant as an independent source to oversee the investment manager.

To paraphrase Henry Ford, our goal is not to find fault, but to find a remedy.

A sector woven into the fabric of national life

Ensuring that CSOs are adequately funded by their investments appears to be essential given the sector's vital role. Standing as they do between the state and the individual, CSOs foster trust and cooperation among citizens.

Many CSOs provide essential services – such as education, healthcare, housing, and disaster relief – especially in areas where government or market solutions fall short.

In our view, Australia's not-for-profit sector, for instance, stands as one of the most expansive and impactful components of national life. It is a diverse ecosystem of organisations ranging from independent schools and medical research institutes to cultural institutions, food banks, legal aid centres, conservation groups, domestic violence shelters, and faith-based charities.

This sector not only addresses social needs but also contributes to the nation's economy, employment, and civic engagement.

In the 2023/2024 reporting period, total revenue reached a record \$222 billion, marking a 10.7% increase from the previous year.¹ This figure represented 7.8% of Australia's GDP,² and delivered a gross value add to the Australian economy comparable to the retail trade sector.³

The sector's financial resources are considerable but unevenly distributed. While "extra-large charities" (just 0.5% of all charities) account for 56% of total revenue,⁴ over 60% of NFPs operate with annual revenue below \$500,000.⁵

As society looks to CSOs to address important problems, a realistic understanding of funding models is increasingly important to realising those aspirations.

As CSOs attempt to balance the responsibilities of their core mission with an increasingly complex investment landscape, we believe the case for them to join hands with dedicated, third-party asset managers has never been more pressing.

CSOs face unique challenges when it comes to investment management. They need to invest their assets prudently to generate sustainable returns while simultaneously ensuring compliance with all applicable laws and regulations.

We would argue that an institutional asset management firm can provide CSOs with the expertise and resources needed to accomplish these two considerations effectively.

Why, because asset managers already do that for their existing clients, including employer-sponsored superannuation funds, insurers, family offices, financial advisers, and individual investors.

¹ <https://theconversation.com/australias-charity-sector-is-growing-but-many-smaller-charities-are-doing-it-tough-258073>

² <https://www.dss.gov.au/charities-and-not-profit-support>

³ Ibid

⁴ Australian Charities Report - 11th edition | ACNC

⁵ Some good news in ACNC's Charities Report shows importance of sector to the economy - Philanthropy Australia

A world of expanding complexity

We contend that CSOs were able to internally manage their capital decades ago because, in the main, investing was largely confined to just two asset classes – Australian shares, with an emphasis on a handful of well-known, blue-chip companies, and government bonds.

However, the liberalisation of financial markets along with the superannuation industry's growth has coincided with innovations featuring a clutch of new asset classes and sub-asset classes, including global investments, as well as ever-more sophisticated risk-management techniques.

Infrastructure assets, both those that trade on stock exchanges, as well as privately owned, non-share market listed ones, are part of the contemporary investment opportunity set.

Likewise, private equity (PE), which are investments in businesses not listed on stock markets; direct loans made by investment institutions to borrowers (private credit); and “alternative investments” embracing, amongst other things, government and legal receivables, and insurance-related securities (financial instruments whose returns are linked to insurance risks, especially those arising from natural disasters such as hurricanes, earthquakes, floods, and wildfires) are part of today's investment menu too.

Each requires deep, specialised knowledge that we argue is most readily found within institutional investment managers. Moreover, constructing resilient portfolios appropriately combining the full array of asset classes and sub-asset classes requires expertise in multi-asset, multi-manager investing, which is also a specialisation.

At the same time, powerful structural themes are disrupting the global status quo and societies.

The post WWII liberal economic order that rested on free-trade and open markets is being fiercely challenged by protectionist impulses and economic nationalism favouring domestic industries while punishing outsiders. Supply chains painstakingly stitched over decades are being unwound with no clarity on when and in what form they will be reconfigured.

Climate change, and the fitful energy transition, artificial intelligence, robotics, and below-replacement level birth-rates across many developed as well as developing countries are all combining to reshape societies, industries and economies.

It seems likely that the composition of winning and losing companies from this ferment will be different from today.

Just think of the dramatic transformation of the US share market, represented by the closely followed S&P 500 index, has undergone in its top-tier composition, reflecting the seismic pace of technological innovation, economic evolution, and business model reinvention.

In the year 2000, the S&P 500 was dominated by industrial, energy, and consumer goods giants. The top companies included General Electric, ExxonMobil, Pfizer, Cisco Systems, and Citigroup.⁶

These firms thrived on scale, infrastructure, and traditional product-based models. Technology was emerging but not yet dominant.

By 2025, the landscape is almost unrecognisable. The top 20 companies are overwhelmingly tech-centric, including, NVIDIA, Apple, Microsoft, Alphabet (Google's parent company), Amazon, Meta Platforms (Facebook's parent company), Tesla, and Broadcom.⁷ Only Microsoft remains in the top 10 today from the cohort at the turn of the 21st century.⁸

The case for outsourcing: clarity, capacity, and competence

With markets, economies, as well as investment capabilities only growing more sophisticated, we posit that potential gains from an externally managed portfolio, tips in favour of outsourcing.

This outsourced model, referred to as an “outsourced CIO” (OCIO), offered by institutional investment managers, provides clients with access to deep, specialised expertise, and robust infrastructure – combining sophisticated investment capabilities with rigorous governance and risk management frameworks.

The investment industry is full of jargon with OCIO being yet another part of the vocabulary.

Notwithstanding that, what this model delivers is straightforward: it allows CSOs to delegate the management of their investments to a third-party firm, an institutional investment management firm freeing the organisation's key people from the day-to-day tasks and time-consuming decision-making that comes with any long-term investment strategy.

Furthermore, we assert that outsourcing to an institutional investment management firm is logical as it represents the shortest possible distance between the CSO and a Chief Investment Officer (CIO).

In a large institutional investment management firm, the CIO serves as the strategic nucleus of the investment function. The CIO is responsible for setting the overarching investment direction, determining asset allocation frameworks, and overseeing portfolio construction.

This office also plays a critical role in ensuring that investment strategies align with clients' long-term objectives and fiduciary responsibilities.

CSOs have partnered with investment professionals from asset consultancies, brokerage firms, and financial advisers for generations. In an era marked by financial complexity and heightened societal expectations, Australia's CSOs must evolve their investment approach to remain resilient and mission focused.

⁶ How the Top S&P 500 Companies Have Changed Over Time

⁷ Top 20 S&P 500 Companies by Market Cap (1989–2025)

⁸ How the Top S&P 500 Companies Have Changed Over Time

While no single model suits all, the case for partnering with institutional investment managers already versed in managing diversified portfolios is compelling.

By shortening the distance between the CSO and the OCIO, NFPs, and endowments can unlock professional stewardship of their capital, ensuring sustainable funding and freeing leadership to focus on what matters most: delivering lasting impact.

By doing so, they safeguard their financial future while fortifying their ability to serve communities that depend on them.

Our first word, not last

This note represents our first, not last word, on the many aspects of investment models for Australia's CSOs. We plan to share more of our thinking with CSO decision-makers over the next year and more in future articles.

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