BAI Investor Report

German foundations, church, and charitable investors 2025

Value-based alternative investments

December 2025

Executive Summary

The report examines **how German foundations, churches, and charitable investors invest in alternatives and how they differ from other types of investors.**

The analysis is based on representative data from the BAI Investor Survey 2025, which surveyed 107 German institutional investors with approximately €2.23 trillion in assets under management, of which 12 are foundations and church-based charitable investors. The quantitative analysis is supplemented by qualitative investor interviews, six of which are cited in this report and provide detailed insights into their portfolios.

Foundations are highly diverse in their objectives, capital structure, and thus in their capital investments and target returns, although **two main objectives** can be identified: on the one hand, to generate **regular, predictable income** to finance ongoing projects; on the other hand, to achieve **long-term real capital preservation and inflation protection** in order to secure the foundation's purpose. Church investors also focus on long-term capital preservation, but unlike foundations, they have **additional, relatively predictable income from church taxes** to finance ongoing activities. **Securing retirement obligations** requires similar objectives to those of pension funds or pension schemes.

Alternatives became increasingly attractive to charitable investors during the low interest rate phase **as a substitute for bonds** and support key investment objectives through stable and predictable cash flows and inflation protection for real capital preservation.

Foundations and church investors enjoy **greater freedom in capital investment compared to more heavily regulated investors** (e.g., insurance companies, pension funds). Capital investment is therefore **less determined by regulations** and more dependent on the individual decisions of those responsible.

Despite their comparatively lower level of regulation, **foundations and church-based charitable investors do not differ significantly from other types of investors in terms of their average allocations across the individual asset classes.** Both groups face the same challenges, and their **average alternative asset allocations are around 30% each**. This can be explained by the fact that, on the one hand, they tend to follow established strategies and, on the other hand, their focus on long-term capital preservation and stable returns leads to comparable risk/return considerations and allocation decisions.

Due to factors such as inflation protection, stable rental income, and often historic ownership (especially in the case of churches), **real estate** remains the traditionally most important alternative asset class for foundations and church investors, with even greater significance than for other types of investors. The current market environment is perceived as challenging due to price declines, low transaction activity, and renovation requirements. However, regarding the impact on portfolios, a clear distinction must be made between different real estate segments and the detailed portfolio structure. Charitable investors are also planning to **reduce their real estate allocations and increase their infrastructure allocations** due to similar cash flow profiles.

In addition to infrastructure, **corporate private debt** is becoming increasingly important due to the asset class's characteristics. In particular, **ongoing cash flow** and alternative risk premiums are increasingly finding their way into the portfolios of charitable investors as a substitute for bonds and real estate.

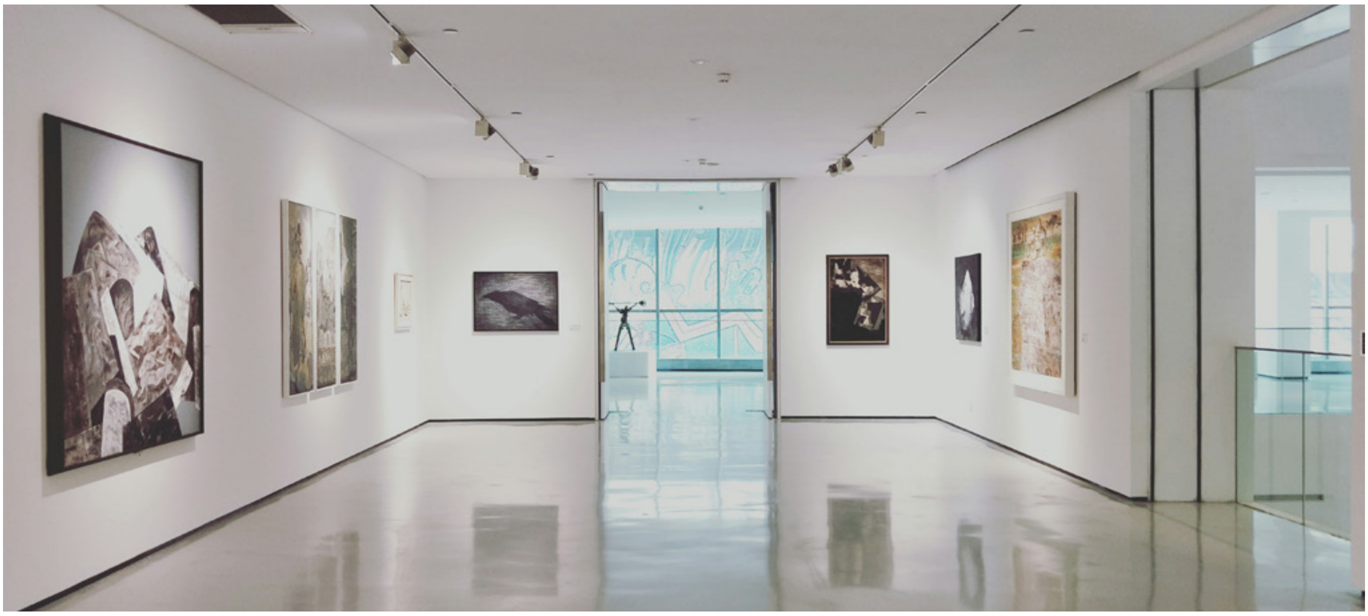
The interviews and data reveal considerable heterogeneity with regard to the alternative investment quota of charitable investors. Experience with alternative investments varies significantly, although for capacity reasons, **relatively few foundations and church investors still consider themselves proven alternative experts with in-house teams**. Charitable investors also differ from other types of investors in terms of factors such as **historical ties to the founder's enterprises and foundation philosophies**, which shape the capital structure and influence investment decisions.

This also influences access to ESG issues. Foundations and church investors are considered **pioneers of value-based and sustainable investing**. Due to their growing importance to other types of investors, there is now little difference between them in terms of ESG practices. However, there are differences in terms of intrinsic, value-driven motivation. Church investors are supported in their decision-making by the EKD Guidelines (Evangelical Church) and the Guidance for Financial Managers of Catholic Institutions (Catholic Church). Due to their value-oriented investment philosophies, **the proportion of charitable investors with an impact strategy is twice as high as that of other investor groups**.

Content

1. German foundations, church, and charitable investors

Foundations, church-based, and charitable investors represent significant players in the German institutional investor landscape in terms of numbers. Unlike many other types of institutional investors, such as insurance companies, pension funds, or pension schemes, they do not have to generate target returns for contributors; rather, they use their assets to finance charitable goals aligned with the foundation's purpose or the church's mission.



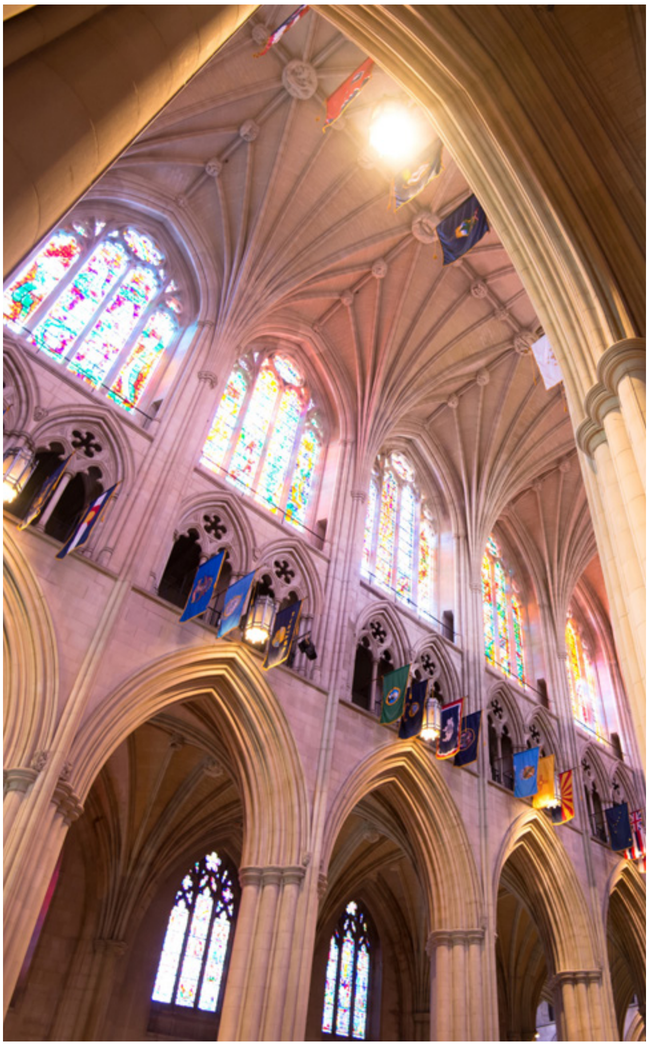
As one of the countries with the most foundations in Europe, Germany currently has more than 26,000 legally recognized civil law foundations, around 90% of which are charitable.[1] With the 60 largest foundations distributing around €5 billion per year, German foundations play a major role in serving the common good in society. Social services, education, arts and culture, and science and research are the main areas in which German foundations are active. In terms of numbers, however, the German foundation landscape is characterized by a large number of small foundations, 80% of which have start-up capital of less than €1 million[2], and a few large foundations[3]. With a total of approximately €107 billion in foundation assets (as of 2021) managed in Germany[4] , foundations as a whole play a relevant role among German institutional investors.

The two major German churches, the Protestant and Catholic churches, are estimated to have total assets of approximately €400 to €450 billion, which is divided roughly equally between them. The largest dioceses, such as Paderborn and Cologne, have balance sheet totals in the range of €4 to €5 billion. The real estate portfolio, as a historical legacy, forms the backbone of the assets of both churches. The more than 20,000 Protestant and Catholic church buildings are estimated to have a market value of over €200 billion, although they are often only reported in the balance sheets at a very small fraction of this market value. In addition, there are a large number of buildings, such as parsonages and social institutions, which together require considerable maintenance. Real estate also dominates the illiquid portfolios of church investors. "Das Investment" calculated from the audited annu-

1 Federal Association of German Foundations.
2 Ibid. Foundations in Germany: Facts and figures.
3 Ibid. List of the largest foundations.
4 German Bundestag 2021.

al financial statements for 2023 of the 11 dioceses of Cologne, Paderborn, Munich & Freising, and Freiburg, calculated an average share of 77% for traditional investments (equity, bond, money market, and special funds without private market vehicles) and 23% for alternative investments, with direct real estate accounting on average 18% as the majority.[5]

This report examines how German foundations and church-based charitable investors invest in alternatives and how they differ from other types of investors. It combines quantitative and qualitative research for this purpose. The figures are taken from the BAI Investor Survey 2025, which contains representative data from 107 German institutional investors with an aggregate approximate €2.23 trillion in assets under management. Twelve investors are foundations and



church-based charitable investors.[6] The analysis is supplemented by qualitative research and expert interviews with charitable investors, six of whom are quoted in this report and provide detailed insights into their capital investments. These are the Protestant Church of Central Germany and the Catholic Archdiocese of Freiburg (equity capital approx. €1 billion) – two representatives of large church investors. Representatives of some of the largest German foundations are featured in the Foundation Remembrance, Responsibility and Future (EVZ) as a foundation under public law (€0.49 billion in equity capital), as well as the foundations under private law, the nonprofit Hertie Foundation (€0.82 billion in equity capital), the Joachim Hertz Foundation (€2.07 billion in equity capital), and The Polytechnic Foundation of Frankfurt am Main (€0.47 billion equity capital)[7], representatives of some of the largest German foundations have their say.

5 The Investment 2025.
6 In the report, both groups are also summarized as "charitable investors."
7 Ibid. List of the largest foundations.

2. Why do foundations and church-based charitable investors invest in alternative investments?

When allocating assets for foundations and church investors, it is essential to understand their investment objectives and investment horizons. Unlike other types of institutional investors, such as insurers, pension funds, or pension schemes, charitable investors do not have contributors on whose behalf they are obliged to generate certain target returns.

Another key difference is the typically much greater freedom in capital investment, as there are no quotas or capital requirements, unlike, for example, insurance companies under Solvency II regulation or pension funds that invest in accordance with investment regulations.

Rainer Maucher, Managing Director of the Hertie Foundation

Rainer Maucher, managing director of the Hertie Foundation, argues that foundations are essentially faced with the same challenges as other investors – only without the regulatory framework that restricts insurance companies or banks, for example. What is more decisive, he says, is the role of the board of directors, which sets the guidelines for the investment strategy. Structures and strategies are therefore less institutionally determined and more dependent on the individuals involved.

2.1 Investment objectives and investment horizon for foundations

Foundations are highly diverse in their objectives, capital structure, and thus in their capital investments and target returns. However, two typical objectives can be summarized. On the one hand, they use the income from their investment assets to finance ongoing projects of the foundation's work. To do this, they are dependent on regular, predictable income.

On the other hand, the long-term real preservation of the foundation's assets and protection against inflation are central. Founders often left assets behind to achieve long-term public welfare objectives, which require a very long-term investment philosophy.

In 2024, the Joachim Herz Foundation spent a total of €51.5 million on charitable causes.[8]

8 Joachim Herz Foundation.

Andreas E. Meier, Head of Capital Investment, Joachim Herz Foundation

Andreas E. Meier, Head of Investment at the Joachim Herz Foundation, makes it clear that the foundation, as an institution that provides funding and has around 70 employees, is dependent on regular investment income. To achieve this, an annual target return of around 3 percent on total assets plus inflation adjustment must be generated for long-term capital preservation.

The target return depends on the structure and individual activities of each foundation. One factor that distinguishes foundations from other types of investors, to a certain extent, is their investment horizon. Due to their goal of long-term capital preservation, charitable investors sometimes emphasize an investment philosophy designed for "eternity." However, given that daily foundation activities and the realization of objectives are financed from returns on the one hand, and macroeconomic developments require asset revaluations on the other, shorter planning intervals are also necessary.

The Foundation Remembrance, Responsibility and Future (EVZ) is committed to supporting survivors of Nazi persecution. Its goal is to work with young people to keep the memory of those persecuted alive through contemporary education and to promote critical engagement with the subject.

Stefanie Hinsdorf, Head of Asset Management, Foundation „Remembrance, Responsibility and Future" (EVZ), image ©Stefanie Loos

According to **Stefanie Hinsdorf, Head of Asset Management at the Foundation "Remembrance, Responsibility and Future" (EVZ)**, the EVZ's medium-term target return is currently around 4.2%. When it was established in 2000, the foundation was endowed with a base capital of around EUR 360 million (DM 700 million). According to its statutes, funding projects may only be financed from the income generated by these assets, whereby the endowment capital remains untouched, and the aim is to maintain its real value. The foundation is therefore dependent on regular net income for its work. Real estate funds were established as a stable source of income in 2009. From 2013 onwards, as a further measure to stabilize income and spread risk, illiquid assets were gradually expanded through infrastructure funds. Both asset classes are viewed from a conservative perspective, with a focus on regular income and contribution to value preservation.

Stefanie Hinsdorf makes it clear that the foundation is not subject to traditional foundation supervision, but rather follows a special structure as a public-law institution: it is comparable to a subordinate authority of the Federal Ministry of Finance, which also exercises legal supervision.

As a foundation established in perpetuity, it pursues the "steady hand" principle in its asset management. Even though geopolitical developments are having an increasingly rapid and noticeable impact on the capital markets, it is important to maintain distance and remain focused on the long term. This principle helps to withstand short-term fluctuations and adhere to processes.

However, the investment of foundations' capital is always caught between the conflicting priorities of long-term capital preservation and the realization of their purpose. Ongoing projects that serve to fulfill the foundation's objectives usually have fixed planning intervals of several years, which require predictable financing.

Thomas W. Meissner, Head of Asset Management, The Polytechnic Foundation of Frankfurt am Main

The Polytechnic Foundation of Frankfurt am Main, emphasizes that despite its fundamentally long-term approach, the foundation does not pursue a "perpetual approach" in the sense of holding investments indefinitely. For the foundation, it is crucial that the asset managers invest with the return of the funds after a clearly defined investment period so that performance can be assessed and opportunities and risks can be reevaluated. Evergreen investments could reduce the incentive for managers and reduce the long-term attractiveness of the assets, as properties in particular may lose their appeal to tenants without newly invested capital. Accordingly, The Polytechnic Foundation of Frankfurt am Main has a target holding period of around 12 to 15 years for real estate, while the investment horizon for private equity and similarly structured investments is more likely to be 7 to 10 years.

However, the importance of financing foundation activities and long-term capital preservation varies not only depending on the foundation's purpose and structure, but also regionally, as foundations differ in their traditions.

The objectives of the Hertie Foundations cover two areas: on the one hand, the non-profit foundation has been committed to promoting a strong democracy for more than twenty years through its own operational projects and by supporting third-party projects, including educational projects. On the other hand, it is dedicated to research and dialogue on the brain and the fight against brain diseases.[9]

With regard to funding objectives, **Rainer Maucher of the Hertie Foundation** points out that German foundations traditionally differ from the American model in their orientation. While in the US, a mandatory minimum distribution quota clearly focuses on the realization of objectives, in Germany, capital preservation has long been the priority. According to Maucher, both are now equally important. This has clear implications for investment policy: *"If you don't want to bear the risk of equities alone, but want to position yourself more broadly and stably, alternative components are indispensable and ultimately without alternative."*

The importance of alternative asset classes for foundations is also reflected in the data on their asset allocations (see 3).

2.2 Investment objectives and investment horizon for church investors

Like foundations, church investors focus on long-term capital preservation in their investments. However, unlike foundations, they do not rely solely on donations and regular income from investments to finance their day-to-day activities, but also have regular income streams thanks to church taxes. In addition, church investors more often use investments to provide for the retirement of their employees, which means that a portion of their assets is allocated with similar objectives to those of pension funds.

9 Hertie Foundation.

The investment of the corresponding legal entities pursues two main purposes and can be divided into two different pots, according to **Holger Sahner, Asset Allocation & Investment Strategist at the Archdiocese of Freiburg**. On the one hand, there is the support of pension obligations for priests and civil servants of the archdiocese, where the investment is clearly based on the actuarial interest rate for the valuation of pension obligations in accordance with the German Commercial Code (HGB). On the other hand, the "Katholische Darlehensfonds" efficiently bundles the entire asset investment process to ensure risk-controlled investment of the funds of the archdiocese, parishes, and other church bodies, institutions, and foundations. This also supports liquidity management, and if necessary, loans are also granted from this fund.

Holger Sahner, Asset Management Officer, Archdiocese of Freiburg

Similar to the foundations discussed above, the investment horizon of the Protestant Church in Central Germany is also fundamentally designed to be "*infinite*," according to **Markus Hesse, Asset Management Officer, Evangelical Church in Central Germany**. The aim is to achieve a target return of around 4% on a long-term average, which seems realistic in a normalized interest rate environment after the difficult low-interest phase. The assets under management comprise, in particular, long-term reserves – for example, for pension obligations – as well as funds from internal church foundations. The investment strategy thus focuses clearly on long-term asset preservation and continuous income, regardless of short-term liquidity requirements.

Both Catholic and Protestant investors emphasize that their investment horizon is designed to be "infinite." This is similar to the logic of traditional foundations, but differs in that it is additionally secured by church tax revenues. The pension fund for church investors is based on the actuarial interest rate and the hedging of pension obligations, comparable to pension funds. In the case of the loan or subsidy pot,

on the other hand, there is a stronger focus on current distributions, similar to foundations. Alternatives are also of central importance for church investors for the purposes of income stabilization, diversification, and due to their long-term nature.

Similarities between foundations and church investors:

Both pursue long-term capital preservation and value regular, predictable returns to finance their respective tasks.

The investment horizon is very long-term in each case, sometimes with a "perpetuity approach," although in practice this is applied differently with regard to the holding period of assets.

Alternatives play an important role in stabilizing returns, diversifying, and hedging against inflation.

However, both groups are caught between the conflicting priorities of achieving their ongoing objectives (e.g., funding projects, social tasks) and preserving their core assets.

Differences between foundations and church investors:

Foundations finance their activities primarily from investment income and are therefore more dependent on regular, predictable returns.

Church investors have additional regular income from church taxes, which gives them more flexibility in their capital investments.

Church investors often have two separate investment purposes: a fund for pension obligations (similar to pension funds, with a focus on security and actuarial interest rates) and a fund for preserving church assets.

Foundations differ more greatly in terms of their individual target returns and focus, depending on the foundation's purpose, history, and capital structure.

3. The alternative allocation of foundations and church-based charitable investors

The BAI defines alternative investments as follows:

Main asset classes:

- Corporate Private Equity
- Corporate Private Debt
- Infrastructure Equity
- Infrastructure Debt
- Real Estate Equity
- Real Estate Debt
- Hedgefunds / Liquid Alternatives

Sub- or niche asset classes:

- Venture Capital
- Credit Specialities / Opportunities
- ILS / Cat Bonds
- Natural capital (e.g., farmland, timber, etc.)
- Other tangible assets (aircraft, ships, etc.)
- Commodities
- Cryptocurrencies & tokenized assets

Figure1: Alternative asset classes as defined by the BAI

Alternative asset classes offer numerous characteristics that enable foundations and church-based charitable investors to achieve their investment objectives.

Financing their projects to fulfill the foundation's goals requires predictable and stable cash flows. Alternatives such as infrastructure (especially core/core+) or private debt can reliably provide these ongoing returns. Particularly due to the low interest rate environment since the early 2010s, alternatives have come into focus as a substitute for bonds. Illiquidity premiums are proving to be an indispensable portfolio component for generating target returns.

At the same time, alternative risk premiums offer diversification and thus reduce dependence on stocks and interest rate risks. For the foundation's goal of real capital preservation, tangible assets such as real estate or infrastructure offer valuable protection against inflation.

Churches and foundations also enjoy greater regulatory freedom compared to other types of investors, such as insurers or pension funds, which are restricted by quotas and capital requirements, and can therefore allocate their assets more flexibly. One hypothesis would therefore be that churches and foundations have comparatively higher alternative quotas in their asset allocation than other types of investors. In fact, however, the alternative quotas of the church-based charitable investors and foundations surveyed, at 29.3% on average, do not differ significantly from the average of other types of investors in the BAI Investor Survey 2025, at 30.5% (Figure 2).

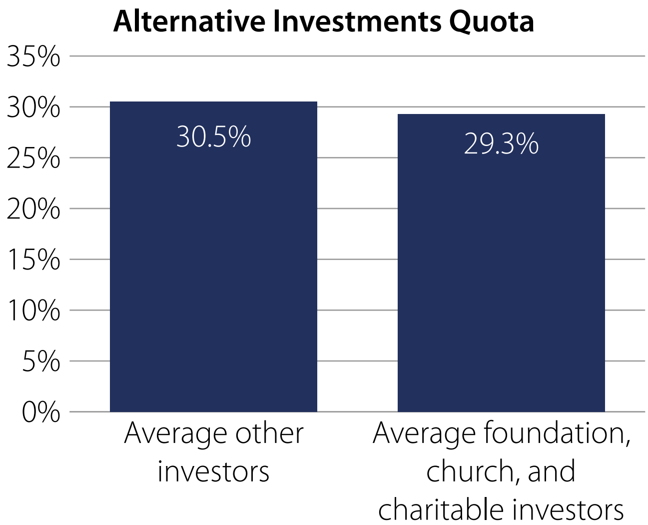


Figure 2: Average share of alternative investments in asset allocation. Source: BAI Investor Survey 2025.

One possible explanation for the only slight difference in the alternative investment ratios of foundations and church-based charitable investors compared to the market as a whole is that both investor groups base their capital investments on established patterns of other institutional investors. In addition, their shared focus on long-term capital preservation and stable returns means that risk-return considerations ultimately result in similar allocation decisions.

When looking at average alternative allocations, however, it must be borne in mind that the BAI Investor Survey tends to attract more investors who are familiar with the BAI and therefore may have a certain affinity for alternative asset classes, which could skew the allocations slightly upwards. However, this applies equally to charitable and other types of investors, which is why the difference between these two groups is unlikely to be significantly affected.

3.1. The heterogeneity of foundations and church-based charitable investors in their alternative allocations

However, there is a certain degree of heterogeneity among charitable investors with regard to the alternative quota in the data. While some investors in this group built up alternative allocations early on, the interviews show that other investors are still less advanced in their development plans. The variance is correspondingly large.

Founded in 2005, The Polytechnic Foundation of Frankfurt am Main is one of the pioneers among German foundations when it comes to early and sizeable allocation in illiquid asset classes. **Thomas W. Meissner**, Head of Asset Management, explains that the foundation currently invests around 40% of its assets in alternatives. Real estate accounts for the largest share at approximately 27–28%, complemented by around 4% each in private equity and infrastructure equity, and 2% in private debt. Infrastructure is pursued exclusively on the equity side.

This portfolio was built up early on and deliberately in a gradual manner: real estate was part of the allocation from the outset, private debt was added in 2009/2010, private equity in 2013/2014, and infrastructure around five years ago. This comparatively early and broad access to illiquid asset classes was made possible because the board of directors had already decided to delegate asset management to an external family office when the foundation was established. Leveraging its expertise, a long-term roadmap was developed for building a broadly diversified asset allocation. Since 2015, the foundation has had its own asset management function.

Rainer Maucher, Hertie Foundation, also points out that the foundation has a comparatively high proportion of alternatives, with around 30% in real estate, 10% in private equity, and another 10% in alternative strategies such as hedge funds, cat bonds, and infrastructure. This level is exceptionally high in the foundation environment, but can be explained by the special risk structure: the aim is to cushion the main risk from the liquid stock market through private markets and at the same time achieve a higher return than listed stocks.

Data from the BAI Investor Survey shows that significantly fewer foundations and church investors than other investors describe themselves as experts in alternative investments and have in-house teamsFigure 3: Experience with alternative investments by investor type. Source: BAI Investor Survey 2025. (Figure 3). This is also related to the often smaller size of the teams responsible for capital investment, especially in comparison to other types of investors, such as insurers. However, two-thirds of charitable investors see themselves as being at least at level 4 out of 6, thus demonstrating significant experience in alternative allocation.

However, the proportion of those who rate themselves at level 2, and thus even less advanced in portfolio development, is also significantly higher on average than for other types of investors.

In-house experience with regard to the alternatives portfolio

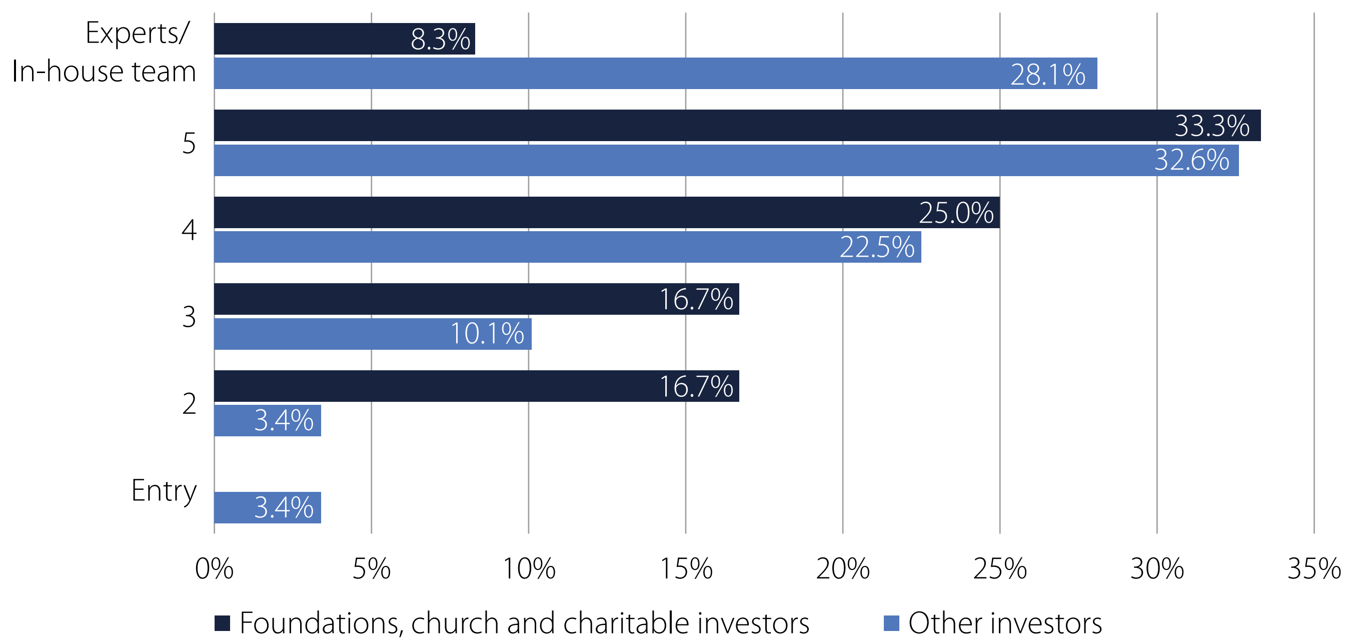


Figure 3: Experience with alternative investments by investor type. Source: BAI Investor Survey 2025.

Holger Sahner, Archdiocese of Freiburg, describes the structure of the alternative portfolio in such a way that the strategic target quota – excluding real estate is around 15%, while the actual allocation is currently only around 5%, as the capital commitments as the basis for the systematic private market development only began gradually with the completion of the strategy concept for private market investments in 2022. Real estate accounts for a large share with an exposure of around 14–18%, but is to be reduced in favor of private market investments in order to adequately meet liquidity requirements at all times, also in relation to the maximum quota of illiquid investments in the investment guidelines of 35%. Overall, the target is roughly 30% alternatives, although the specific structure also depends on the various legal entities and their liquidity restrictions. Sahner emphasizes that the allocation is not finely controlled by rigid quotas or ongoing rebalancing, but rather as part of a risk-oriented "calm hand investment policy."

It should be noted here that real estate, as an asset class with a long tradition, especially among German institutional investors, is often not counted as an alternative investment in practice. However, due to the characteristics of the asset class, such as its illiquidity, real estate is counted as an alternative investment in the literature and according to the definition of the BAI (Figure1). This must be taken into account when considering data on alternative quotas in asset allocation.

Stefanie Hinsdorf, EVZ Foundation, describes the structure of the alternative investment portfolio as follows: since 2019, a target quota of 20% has been defined – divided into 10% real estate and 10% infrastructure, both of which have so far been exclusively in the equity sector. While real estate investments were already being built up from 2009 onwards, infrastructure was added somewhat later, from 2013 onwards, mainly in response to the low interest rate environment. Since 2019, the foundation has been supported by an external consultant in the area of illiquid assets. In the meantime, the infrastructure sector is weighted slightly higher than the real estate sector. As EVZ Foundation is a public-law foundation, it is not subject to any legal or regulatory restrictions with regard to the proportion of illiquid investments and can therefore position itself within the ranges it has set for itself. In total, the foundation manages around €640 million, of which the remaining 80% is invested in stocks and bonds, with a current trend towards more bonds.

Foundations are also often subject to historical factors that influence their capital structure and tie them to the undertakings of the original founder. The foundation's philosophy can also influence its investment structure.

The Joachim Herz Foundation differs significantly from other foundations in terms of its capital structure and is particularly influenced by the legacy of its founder. In 2008, Joachim Herz left behind assets with a market value of around €1.3 billion, which formed the basis of the foundation's assets. The majority of the foundation's capital is indirectly invested in Beiersdorf AG, supplemented by other corporate investments. In addition, the capital investment is supplemented by real estate in the US and Germany and a broadly diversified securities portfolio. The foundation's goals are "the transfer of cutting-edge research into practice, the strengthening of start-up ecosystems, and sustainable vocational training" in order to generate "new ideas and sustainable business models." According to the statutes, the values of freedom and individuality that shaped the founder are also decisive in ensuring that the foundation's capital is still predominantly invested and tied up in entrepreneurial ventures. [10]

Andreas E. Meier, **Head of Capital Investment at the Joachim Herz Foundation**, explains: *"Around 80% of our assets are invested directly in businesses or real estate – this shapes our capital structure. As part of the further diversification of our income structure, we are systematically building up a diversified private markets portfolio with a target return of around 7%, which contributes to stabilizing our eligibility for funding."*

3.2. The significance of individual alternative asset classes

Looking at the proportion of investors allocating to each alternative asset class, there are also only minor differences between charitable investors and other types of investors.

75% of charitable investors are currently invested in corporate private equity, two-thirds in corporate private debt, and one-third in real estate debt, each only slightly less than other investors. Infrastructure equity is even more popular among charitable investors than among other types of investors, with over 80% of investors allocating to this asset class (Figure 4). While real estate remains fundamentally important, the data shows that foundations and church investors are now investing in a wide range of alternative asset classes.

10 Joachim Herz Foundation.

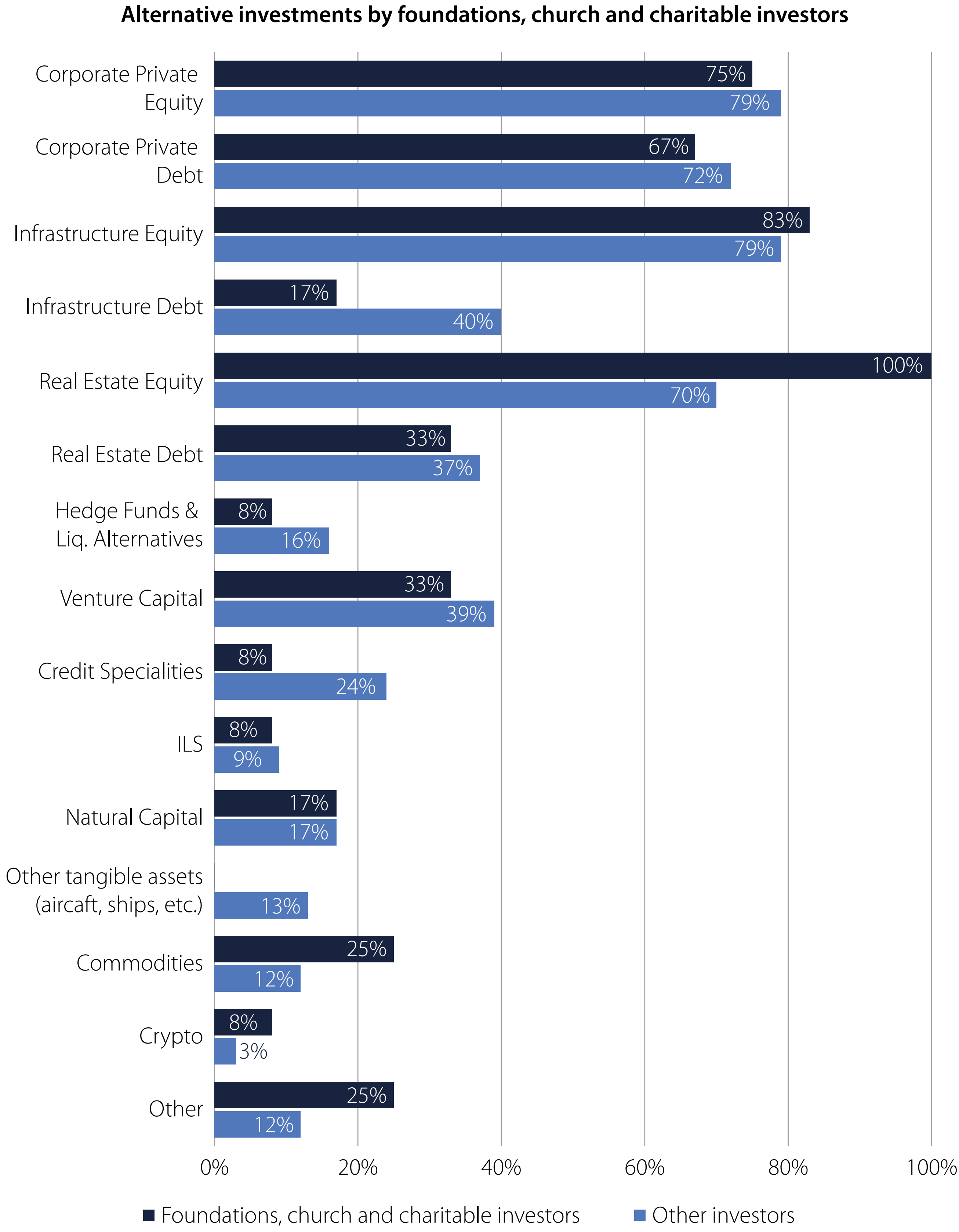


Figure 4: Percentage of investors invested in each asset class by investor type. Source: BAI Investor Survey 2025.

A comparison of the approximate average allocations to the individual alternative asset classes also shows that the distribution tends to be similar, although individual emphases vary (Figure 5).

The BAI Investor Survey 2025 can be considered representative with its cross-section of the German institutional investor landscape. However, due to the small sample size of charitable investors in the survey, the comparison with other investor types must be considered only partially representative and interpreted with caution.

Both investor groups hold the largest share in real estate, especially in real estate equity, with foundations and church investors showing slightly higher rates here. The shares are also relatively close in infrastructure and private equity investments, which indicates a similar risk-return trade-off.

Approximate average allocation in alternative asset classes

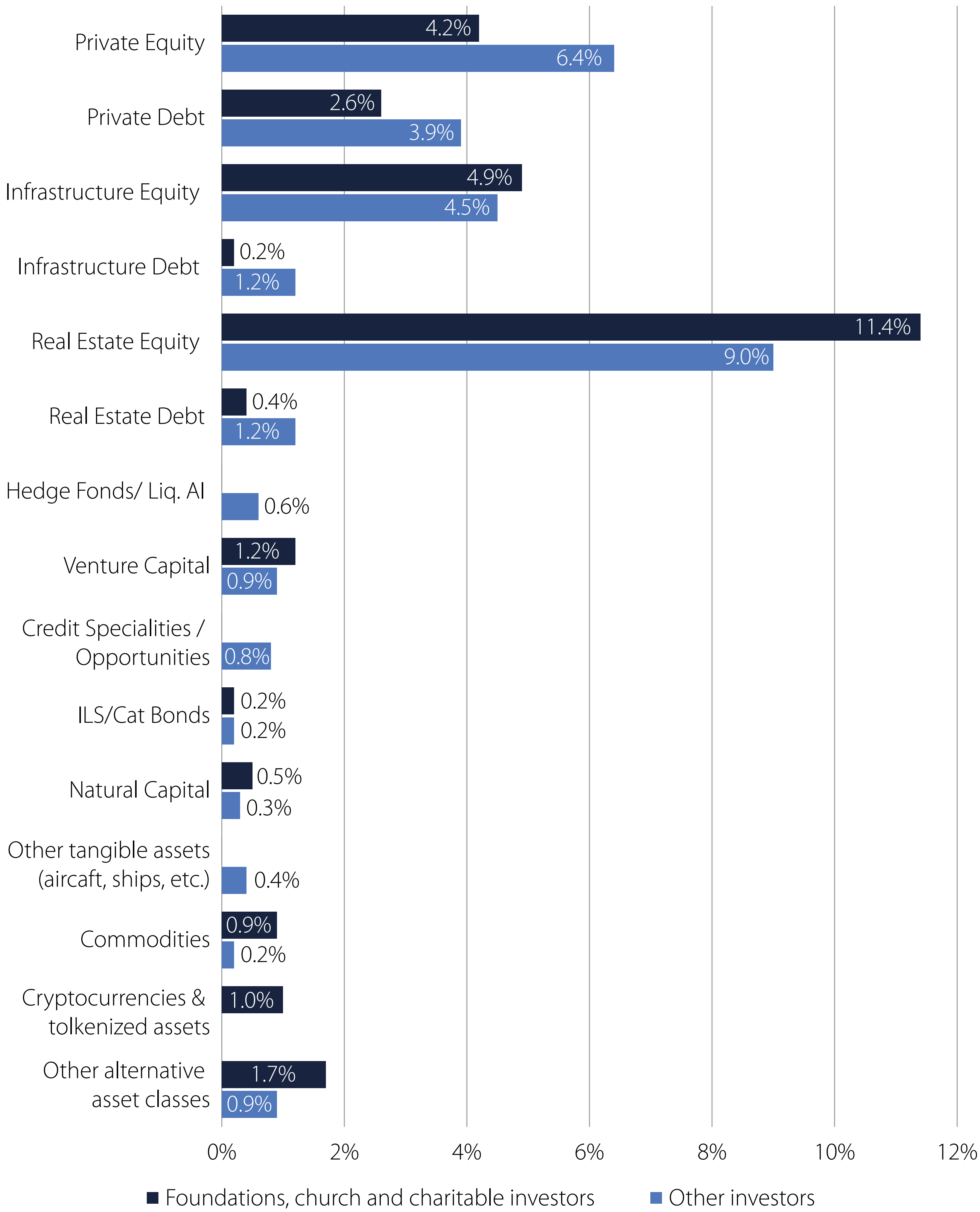


Figure 5: Approximate average allocation by asset class and investor type. Source: BAI Investor Survey 2025.

Allocation to niche strategies such as cat bonds, natural capital, or tokenized assets is significantly lower, as these have only played a role in isolated cases to date, resulting in low average allocations. However, the allocation of those few foundations that have invested is naturally higher in individual cases.

With regard to allocation to individual alternatives, **Rainer Maucher of the Hertie Foundation** makes it clear that investments in new asset classes only make sense from around five percent upwards. Anything less than that is "ultimately a hobby" – too small to have a noticeable impact on the portfolio and, in the event of weaker results, more likely to require explanation than to offer opportunities for returns. Therefore, the strategy is to start with smaller investments in new commitments, but to consistently expand the share in the medium term.

There is therefore a trade-off between diversification through more alternative asset classes in the portfolio and the effort required to manage it. The BAI Investor Survey 2025 shows that, on the one hand, small sub- or niche asset classes are becoming more important, but on the other hand, diversification into many different alternative asset classes has not increased further compared to the previous year. Accordingly, more diverse alternative asset classes are not always perceived as positive.[11]

Overall, it appears that despite their specific regulatory and ethical framework, foundations and church-based charitable investors are increasingly building private market portfolios that are similarly diversified to those of other institutional investors – albeit with a slightly stronger focus on stable, ongoing returns.

3.2.1. Real Estate

Real estate remains the most important alternative asset class for church-based charitable investors and foundations in Germany. It traditionally plays a significant role in the fixed assets of churches and foundations and, at least in theory, provides protection against inflation and a predictable income stream. It also plays a special role in portfolios, as churches, for example, often have historically owned real estate. Accordingly, all charitable investors surveyed stated that they were invested in real estate equity, compared to approximately 70% of other investors.

One-third of the charitable investors surveyed also invest in real estate debt.

Rainer Maucher, Hertie Foundation, explains that the foundation takes a two-pronged approach to real estate: around two-thirds of the portfolio consists of its own direct holdings, which are almost exclusively concentrated on office and residential properties in Germany. In addition, fund vehicles are used to gain access to segments such as logistics, social care, and foreign real estate, which are not part of the foundation's core expertise. In this way, the direct portfolio remains within the German legal framework, while external partners are brought in for special topics.

11 BAI Investor Survey 2025, p. 9.

The BAI Alternative Investments sentiment barometer shows that sentiment among German institutional investors in the real estate sector has been at its lowest in recent years and expectations have not been met. The negative sentiment on the German real estate market has not spared foundations and church-based charitable investors. With 55% of the foundations and church-based charitable investors surveyed, significantly more investors want to reduce their allocation to real estate equity than other types of investors (Figure 6). Here, too, it should be noted that, due to the fact that only 12 charitable investors participated in the BAI Investor Survey 2025, the comparison may not be considered representative.

Planned adjustment of allocation in Real Estate Equity by investor type

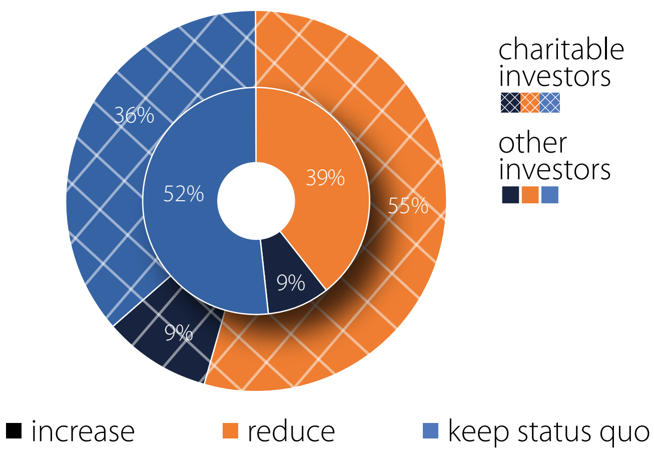


Figure 6: Planned adjustment of real estate equity allocation among foundations and church-based charitable investors (outside) and other types of investors. Source: BAI Investor Survey 2025.

The initial cause of this was the ECB's dramatic interest rate reversal as a result of the inflation shock in the wake of the coronavirus pandemic and the start of Russia's war of aggression in Ukraine. Real estate in Germany fell from its record valuation level, and transaction activity largely came to a standstill. Factors such as the increasing importance of home office and online retail instead of brick-and-mortar stores, also as a result of the pandemic, further exacerbated the situation in the office and commercial real estate market. The need for energy-efficient renovations and the associated investment requirements, as well as uncertainties in this regard, also contribute to the challenging environment.

Regarding the real estate allocation, **Thomas W. Meissner** explains that The Polytechnic Foundation of Frankfurt am Main had significantly increased its share from 2011 onwards in order to secure stable ordinary income during the low-interest phase. Today, with bond markets offering more attractive yields again, the quota is being gradually reduced. A large portion of the funds freed up will be invested in infrastructure, as the cash flow profile is comparable. However, this shift is being delayed because there are still very few transactions on the German real estate market, especially in the office segment. The reasons for this lie partially on the overall market condition, but also, in location-specific issues and the reluctance of some sellers to accept valuation discounts. In addition, energy-efficient refurbishments entail additional costs that only pay off over the long term upon exit. Taken together, this points to a challenging environment in which a realistic revaluation of many properties is still pending.

In the current real estate market, Rainer Maucher of the Hertie Foundation points out that many properties purchased at high prices by market participants in recent years no longer meet sustainability requirements. He cited an example from his own portfolio, in which a 140-year-old building was completely demolished and then upgraded to the KfW 40 energy standard – including a heat pump and solar system. These measures reduced the building's energy consumption by over 90%. Those who are prepared to bear such work and costs can continue to achieve attractive returns on real estate. However, the quality of the location is crucial: while investment costs in prime locations can be passed on through higher rents, many properties in secondary locations face considerable problems. These would have to undergo significant price reductions before they would become attractive to investors again.

Current study results show that, from an investor's perspective, the real estate market in Germany is extremely heterogeneous, depending on factors such as location, amenities, and rentability. Logistics warehouses, for example, are benefiting from the trend toward more online commerce. Smaller real estate markets in smaller "B" and "C" cities are generating better returns than in the centers of so-called "A" cities. In the residential real estate sector, niches such as micro-apartments and assisted living apartments are attractive. However, according to the Bulwiengesa study, the best expected IRR over a 10-year period would be in the area of production cities for the manufacturing industry, which is rated significantly better than the manufacturing industry.[12]

The investors surveyed confirm in interviews that a clear distinction must be made between different real estate segments and that the detailed structure of portfolios is of crucial importance.

Markus Hesse, Evangelical Church in Central Germany, describes the real estate environment as tense, but points out that the market is hoping for a bottoming out. Broad diversification is crucial: while Germany has historically been a focal point, the portfolio is to be spread more widely across Europe and, to a lesser extent, worldwide in the future. Within the real estate quota, there is a deliberate shift away from office and retail properties toward logistics, residential, and, in particular, social properties such as schools and kindergartens—areas that are partly related to social infrastructure. Such segments have developed more stably, while other real estate funds are currently performing weaker. Overall, the focus is therefore on a mix that is intended to cushion short-term fluctuations between the sub-segments.

Social real estate can be viewed as an asset class that straddles the boundary between real estate and infrastructure.

12 Handelsblatt 2025.

Stefanie Hinsdorf makes it clear that the EVZ Foundation's real estate portfolio has been built up with great care in recent years and is therefore proving to be very stable in the current environment. One example is the complete absence of office properties, which means that the foundation is not affected by the difficulties in this sector. Against this backdrop, she sees no need to change the approximately 10% quota due to geopolitical uncertainties or the macroeconomic environment. Adjustments could still be made, but primarily for reasons of active portfolio management – for example, if reallocations or new investments are pending.

At the same time, she points out that the foundation invests exclusively through funds in both the real estate and infrastructure sectors and does not currently hold any direct investments.

3.2.2. Other alternative asset classes

In addition to real estate as the most important alternative asset class, foundations and church-based charitable investors have become increasingly open to other alternative asset classes in recent years. This trend is less a reflection of a short-term focus on returns and more an expression of a strategic realignment: in view of volatile capital markets, investments in real assets, private markets, and diversification strategies are gaining in importance in order to secure stable returns and long-term capital preservation. The approaches vary considerably depending on the capital structure and institutional context.

Andreas E. Meier from the Joachim Herz Foundation explains: Since the Joachim Herz Foundation has been able to achieve attractive returns in the past through individual company sales, but such returns are unpredictable and there is a high degree of dependence on returns from individual investments, the portfolio is currently being restructured in a targeted manner to make the return profile even more resilient.

Looking at the individual segments, **Rainer Maucher of the Hertie Foundation** paints a nuanced picture: While private equity is currently "struggling a bit" – due to weak fundraising and a blocked IPO market, for example – he continues to see positive prospects for private markets in the credit sector. The foundation has also taken initial steps in real assets such as forests and cat bonds. According to Maucher, it is crucial that such positions are gradually raised to a substantial level, "otherwise the effects on the portfolio will hardly be felt."

With regard to portfolio allocation, he emphasizes that a clear distinction must be made between different investment objectives when making selections. In the case of hedge funds, conscious attention is paid to a low equity beta in order to achieve genuine diversification, while infrastructure investments are primarily located in the conservative core and core-plus segments. The focus here is less on the pursuit of private equity-like exit returns and more on building stable current returns in the range of four to five percent per annum. The total return expectation for the overall portfolio is thus around seven percent. Real asset investments such as real estate and infrastructure play a central role here, not only because of their inflation protection, but also because of their stabilizing effect – as demonstrated during the coronavirus crisis, when the foundation recorded rent deferrals but only minimal losses.

These statements illustrate how large foundations are increasingly aiming to embed alternative asset classes in their allocation in a structured but selective manner. Diversification across different sources of return plays just as important a role as income stability in an environment of increased market volatility. A similar pattern can also be seen among other institutional foundation investors, who are combining the expansion of private markets with a clear separation between core and satellite strategies.

The data in the BAI Investor Survey 2025 shows that, given the limited representativeness mentioned above, even slightly more charitable investors than other types of investors would like to increase their infrastructure equity allocations (Figure 7). This is consistent with the plans expressed in the interviews for shifts from real estate equity to infrastructure equity.

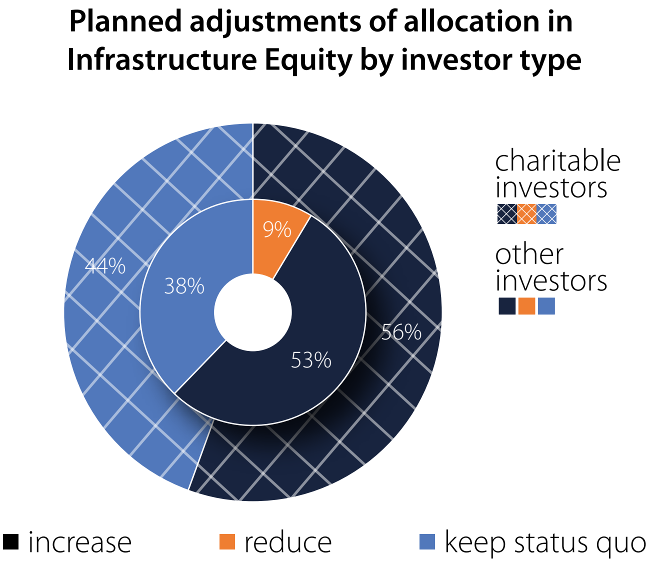


Figure 7: Planned adjustment of infrastructure equity allocation among foundations and church-based charitable investors (outside) and other types of investors. Source: BAI Investor Survey 2025.

One vehicle that is relevant for church investors when it comes to capital investment is the so-called **Separately Managed Account (SMA)**. The term refers to a form of investment in which an investor mandates an external asset manager to manage the holdings of an individually managed account. The aim is to generate returns for the investor within the framework of a predefined investment strategy. Depending on the agreement, the investor can grant the manager limited or comprehensive authority to implement investment decisions independently.[13]

Holger Sahner, Archdiocese of Freiburg, describes the church investor's private markets strategy as structured, risk-controlled, and balanced for the long term, with equity and debt strategies each weighted approximately equally.

On the private debt side, the focus is on broadly diversified core investments, implemented via SMAs with around 700-800 loans. The first mandate focuses on the upper mid-market in direct lending, supplemented by infrastructure and real estate loans, with a target structure of approximately 70% corporate private lending, 20% infrastructure debt, and 10% real estate debt. A second SMA complements this with a stronger exposure to the lower mid-market. In addition, satellite strategies such as asset-based finance or royalty models are being examined in order to further increase diversification in the volatile environment.

On the equity side, there is a slight emphasis on infrastructure, where, in addition to traditional renewables (wind, solar, hydropower), Article 9 funds with SDG impact are used as satellite investments. The broadly diversified core investment is also implemented via

13 Private Equity Magazine 2019.

an SMA in order to strictly implement specific exclusions, etc., via negative lists or SDG targets, and has a broadly diversified exposure across various sectors and regions, covered by primaries, secondaries, and direct or co-investments. In the private equity sector, on the other hand, no SMA approach is pursued, but rather investments are made in classic, complementary, broadly diversified closed-end funds of funds, supplemented by individual thematic satellite investments via individual target funds, each with around 12-15 direct investments in companies with high ESG or SDG ratings, but above all with a special regional focus. In the private equity sector, the quota is being gradually expanded through further, still outstanding capital commitments to new investment programs by managers with the aim of achieving strong vintage diversification. The strategies of the programs are to invest globally in a broadly diversified manner across primaries, secondaries, and direct or co-investments.

Sahner emphasizes that private credit and infrastructure equity continue to offer attractive risk-return profiles and stable current income, while in private equity, the company is currently taking a somewhat more cautious approach to planned capital commitments along the private market strategy in view of slower capital calls, sluggish exits, and thus lower returns. Overall, the structure is clearly divided into broadly diversified core investments and thematically focused satellites in order to combine broad diversification and individual strategic emphases, including those with a high ESG or impact character, in a balanced manner.

While church investors such as the Archdiocese of Freiburg are thus strongly leaning toward structured mandate solutions and impact-oriented approaches, foundations are showing that changes in asset allocation can also result from internal capital structures

4. Value-based investing – ESG and impact investing

Environmental, social, and governmental factors have become increasingly important in the capital investments of German institutional investors in recent years. In the BAI Investor Survey 2023, 63% of German investors surveyed stated that they already pursue an ESG strategy, and a further 24% stated that they plan to introduce one. On the asset manager side, as many as 84% of respondents to the BAI Member Survey said they were allocating according to an ESG strategy.[14]

The trend toward increasing importance of ESG can be traced back to recent years and has been driven in particular by the EU's regulatory initiatives as part of its sustainable finance agenda. With the introduction of key regulations such as the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy, and the Corporate Sustainability Reporting Directive (CSRD), the European Commission has created clear guidelines for redirecting capital flows toward sustainable investments. The aim of these measures is to increase transparency regarding sustainability risks and impacts and to provide investors with a sound basis for decision-making. Regulatory pressure has been a key driver for the greater integration of ESG criteria into institutional investment strategies[15]. This development has been further reinforced by growing investor interest in sustainable investment products on the demand side and by asset managers increasingly using ESG as a differentiator and selling point on the supply side.

In the BAI Investor Survey 2022, German investors and asset managers were asked about their motivations for ESG investments. A good 50% of GPs and LPs, respectively, stated that they invest in ESG-compliant assets due to regulatory requirements. Although 77% of GPs and 70% of LPs cited intrinsic motivation, stakeholder expectations also played a decisive role for 77% of GPs and 58% of LPs.[16]

Since then, however, a certain ESG fatigue has set in in some parts of the market. While regulation through SFDR, EU taxonomy, and CSRD continues to increase in Europe, the election of Donald Trump in the US has seen a significant counter-movement to the ESG trend, with numerous companies moving away from sustainability strategies.[17]

In Europe, on the other hand, the complex ESG regulatory environment is increasingly coming under criticism. The multitude of requirements – from SFDR and CSRD to the Supply Chain Act – is causing a high

14 BAI Investor Survey 2023.
15 European Commission, 2024.
16 BAI Investor Survey 2022, p. 21.
17 FR, June 25, 2025.

level of bureaucracy and uncertainty, which many market participants perceive as a burden. To counteract this development, the EU Commission responded in 2025 with Omnibus Package I, which aims to simplify and standardize ESG regulation in order to strengthen the acceptance of sustainable financing again.[18]

These developments show that the ESG trend is by no means exclusively intrinsically motivated, but can also depend heavily on legal, political, and market conditions.

It can, therefore, be particularly instructive to consider the approaches and assessments of charitable investors as value-driven investors.

4.1. Value-based investing by foundations

Due to their public welfare-oriented objectives, foundations are theoretically more intrinsically motivated than other types of investors and have accordingly been pioneers in value-based and sustainable investing.

Stefanie Hinsdorf, EVZ Foundation, emphasizes that the foundation had already been applying clear exclusion criteria, such as for weapons or forced labor, long before the ESG debate. Sustainability aspects are incorporated into all investment decisions, even if they cannot be implemented in the same way in the illiquid sector as in liquid investments.

In addition to the fact that foundations can often be regarded as pioneers in terms of ESG due to their value-based investment philosophy, it can be argued that they achieve the greatest possible positive effect on society as a whole through their foundation work. Capital investment can also be seen as a means to an end in order to finance this in the best possible way.

The Polytechnic Foundation of Frankfurt am Main is an operational foundation whose diverse project portfolio promotes education and skills among people in Frankfurt. According to **Thomas W. Meissner**, the primary goal of capital investment is therefore to generate stable returns in order to finance the foundation's work on a permanent basis. Sustainability aspects are particularly relevant where they are linked to the investment itself, for example, in the energy-efficient refurbishment of the foundation´s own or leased properties, or in investments in renewable energies. In principle, however, the foundation aligns with the SDGs and ensures that investments do not conflict with its own purpose – child labor, for instance, is in absolute contradiction to the foundation's educational mission.

The discussions show that exclusion criteria are mostly applied to assets that are not compatible with the foundation's values. The approaches differ only slightly from those of other types of investors, although foundations can be considered pioneers due to their clearer intrinsic motivation.

It is generally considered most efficient to use similar investment strategies to other investors in order to generate stable returns and thus achieve the foundation's goals.

Andreas E. Meier from the Joachim Herz Foundation provides an approach that specifically aims to achieve an impact in line with the foundation's goals

18 *Börsen-Zeitung, August 8, 2025.*

through asset allocation, rather than solely through projects financed by distributions. According to this approach, the foundation intends to use a small portion of its assets to build a mission-related investment portfolio. This portfolio would support projects such as spin-offs in the foundation's own funding priorities, i.e., new materials and resources of the future, entrepreneurial thinking and action, vocational training, and digital transformation.

4.2. Value-based investing among church investors

Church investors have many parallels with foundations when it comes to ESG and value-based investments.

Holger Sahner emphasizes that church investors today no longer differ greatly from other institutional investors, as ESG criteria are now generally established. For churches, however, ethical and sustainable investing is not a passing trend, but has always been a central mission and part of their "DNA." The approach includes exclusion criteria and best-in-class methods in particular. Differences arise primarily from specifically Catholic guidelines, such as the exclusion of investments in abortion, embryonic stem cell research, pornography, or video games that glorify violence.

While the ESG strategy is clearly established, impact approaches are also pursued in the private markets sector, for example through SDG-oriented investments. Sahner points out that the distinction between ESG and impact is not always strictly drawn internally either. Overall, he believes that the Church is well-positioned thanks to its long experience in sustainable investing, even if new developments must be continuously reviewed and weighed up.

Impact investing goes beyond traditional sustainable investing (according to SFDR). Investments are characterized by clear impact, intentionality, and systematic evaluation of the impact achieved (impact measurement & management, IMM). According to the BAI position paper "Impact Investing in Alternative Investments," impact investments can be considered sustainable investments within the meaning of Art. 2(17) SFDR if they contribute measurably to sustainability goals, do not cause any significant negative impacts, and meet regulatory requirements. Private markets are particularly suitable for this purpose, as they allow direct influence on real assets and can often achieve greater impact in less efficient markets.[19]

The intrinsic identification with certain value-based and socially beneficial goals can also be seen as the reason why relatively twice as many foundations and church investors as other types of investors stated in the BAI Investor Survey 2025 that they pursue impact strategies (Figure 8)[20]. The alignment between foundation goals and potential impact through asset allocation gives them easier access to impact strategies.

Do you pursue impact investing strategies?

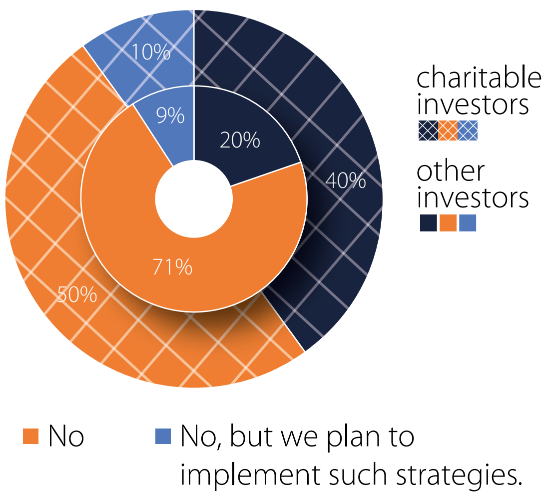


Figure 8: Percentage of investors pursuing an impact strategy,among foundations and church-based charitable investors (outside) and other types of investors. Source: BAI Investor Survey 2025.

Markus Hesse, Evangelical Church in Central Germany, also confirms that the differences between church investors and other investor groups with regard to sus-

19 BAI & Federal Impact Investing Initiative (2024).
20 Subject to limited representativeness due to the small sample size of 12 charitable investors in the BAI Investor Survey 2025.

tainability criteria have narrowed significantly. While church institutions used to be ridiculed for their ethically motivated exclusions, it is now standard practice for managers to provide relevant ESG data, such as CO_2 emissions. The main difference, however, is that church investors do not apply these criteria because of regulatory pressure or market trends, but out of intrinsic motivation. The basis for this is, for example, the EKD guidelines for ethical and sustainable investment, which clearly define which industries – such as armaments – are excluded. The church's understanding thus goes beyond a pure ESG strategy, as it is more strongly oriented towards Christian values and is implemented at its discretion for both liquid and illiquid investments.

The Working Group of Church Investors (AKI) brings together over 100 Protestant institutions with assets under management of around €30 billion. Its central instrument is the "Guidelines for Ethical and Sustainable Investment," published in July 2024 in its fifth edition, which defines binding ESG guidelines. These guidelines set out clear positive and negative criteria, such as exclusions for arms and dual-use goods, nuclear energy, fossil fuels (from 5% share of sales), pornography, and gambling, as well as preferences for companies and funds that make a measurable contribution to the UN Sustainable Development Goals (SDGs), for example through impact investments or social bonds.[21] Investment decisions can be classified as compliant with the guidelines according to a checklist[22].

Similarly, the Catholic Church has published guidelines for financial managers of Catholic institutions.[23] These guidelines are intended to support church institutions in making ethical and sustainable investments and are published jointly by the German Bishops' Conference and the Central Committee of German Catholics (ZdK)

21 *The Investment. EKD Guide 2025.*
22 *EKD Guideline Checklist.*
23 *Guidance for financial officers of Catholic institutions.*

5. Conclusion

Alternative investments play a central role in asset allocation for German foundations and church-based charitable investors, both to achieve long-term capital preservation and to generate regular distributions.

Despite their greater regulatory freedom, they invest in alternatives in a structurally similar way to other types of investors on average. However, their capital investments are highly heterogeneous and depend on factors such as historical path dependencies, the legacy of the founder, and portfolio development plans at varying stages of advancement. Due to their often smaller size, charitable investors are less likely to have experienced in-house teams and, on average, have less experience than other investors in the alternatives space. The increasing development of expertise, long-term portfolio development plans, and the structural advantages of illiquid asset classes, such as alternative risk premiums, mean that their importance for charitable investors is growing, particularly in the asset classes of infrastructure and private debt. Real estate has historically been very important in portfolios. However, there is a trend away from real estate and towards infrastructure.

Charitable investors now differ little from other investors in terms of ESG practices. However, due to their stronger intrinsic motivation with regard to value-oriented investments, they were pioneers in this area. This is also reflected in the significantly higher importance of impact investments for foundations and churches.

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