The Evolution of Effective Oversight of Your Endowment or Foundation

May 14, 2024

AGB ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

Today's Speakers

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Jim Scheinberg, CIMA®

Managing Partner &
Chief Investment Officer

Gregory Metzger, CPFA® NQPA® AIF®

Senior Consultant and
Search Practice Leader

Jim and Greg have collectively administered over 300 oversight, evaluation, and search projects totaling more than $250 billion for institutional investors.

Why You're Here

As a Board / Committee or staff member for an endowment or foundation, as a fiduciary you are required to provide oversight to a pool of assets.

Today's webinar will help you understand how to provide that oversight effectively, including:

1. The **different types** of effective foundation oversight.
2. **When and how** to apply each type of oversight.

The E&F Landscape

- The landscape of E&F management has rapidly evolved.
- Since 2020, most foundation Boards and staff have experienced significant turnover.
- Many stakeholders were not part of creating their existing partnerships and governance.

This can lead to a lack of confidence or uncertainty.

Some Reasons to Evaluate Your Investment Program & Partners

- Staff / Committee / Board turnover
- Change in program goals and objectives
- Extensive amount of time has lapsed from last evaluation or RFP
- Inconsistent, unexplainable, or unacceptable performance
- Major M&A with incumbent consultant / OCIO

Today's Takeaways

Today's takeaways will help your institution create and maintain a framework for ongoing oversight and stewardship of your foundation or endowment, including:

- Oversight types / cadence recommendations
- Oversight best practices
- Pitfalls and blind spots to avoid
- Expert resources

Types of Effective Oversight

Ongoing Oversight Disciplines

Periodic Evaluation

Search (RFP / RFI)

Ongoing Oversight Disciplines

How to apply ongoing oversight disciplines:

- ✓ Regularly poll your committee on consultant / OCIO satisfaction.
- ✓ Regularly review your governance documents (i.e., charters and Investment Policy Statements) and assess adherence.
- ✓ Interview your consultant / OCIO to surface changes in staff, business model, client base, legal disclosure, etc.
- ✓ Make sure benchmarks are effective and appropriate based on your policy and objectives.
- ✓ Ensure peer groups provide appropriate comparisons for your organization's type, size, objectives, and risk budget.
- ✓ Establish a written oversight policy and / or calendar.

Ongoing Oversight Disciplines

Internal oversight questions to periodically ask your investment committee:

1. How satisfied are we with our consultant / OCIO relationship?
2. Does our consultant / OCIO speak at a level that we understand?
3. Does our consultant / OCIO regularly provide appropriate peer group comparisons?
4. Does our consultant / OCIO provide liquidity analysis?
5. What kind of support or analysis does our consultant / OCIO provide regarding projecting using updated capital market forecasts?

Ongoing Oversight Disciplines

When to apply ongoing oversight disciplines:

✓ Quarterly:

- Review the adherence to asset allocation and other IPS criteria including any rebalancing that has taken place or needs to take place.
- Inquire about any significant performance variation from benchmarks (both positive and negative) and discuss anomalies.
- Discuss Watch List managers (or establish a Watch List if needed).

Ongoing Oversight Disciplines

When to apply ongoing oversight disciplines:

✓ Annually:

- Inquire about organizational or staff changes at consultant / OCIO firm.
- Review program fees and manager costs and discuss any significant increases. (Benchmark if possible.)
- Compare performance attributes to readily available but applicable benchmarks and peer cohorts.

Periodic Evaluation

What is an effective investment program evaluation?

A full program evaluation goes beyond procedural oversight, which is often self-administered. At prudent intervals or when conditions dictate, investment stewards should embark on an objective and thorough review of their entire investment program.

Periodic Evaluation

Key components include:

- Updating the committee on current fiduciary best practices and industry trends and standards.
- Full governance procedure, policy adherence, and efficacy review.
- In-depth due diligence on current consultant / OCIO and custodian.
- Robust implementation and independent performance analysis.
- Objective consultant / OCIO service assessment.
- Negotiation for service and fee improvements if necessary.
- Refine stakeholder and vendor communications and reaffirm agreements.
- Determine if additional action is required.

Periodic Evaluation

Benefits:

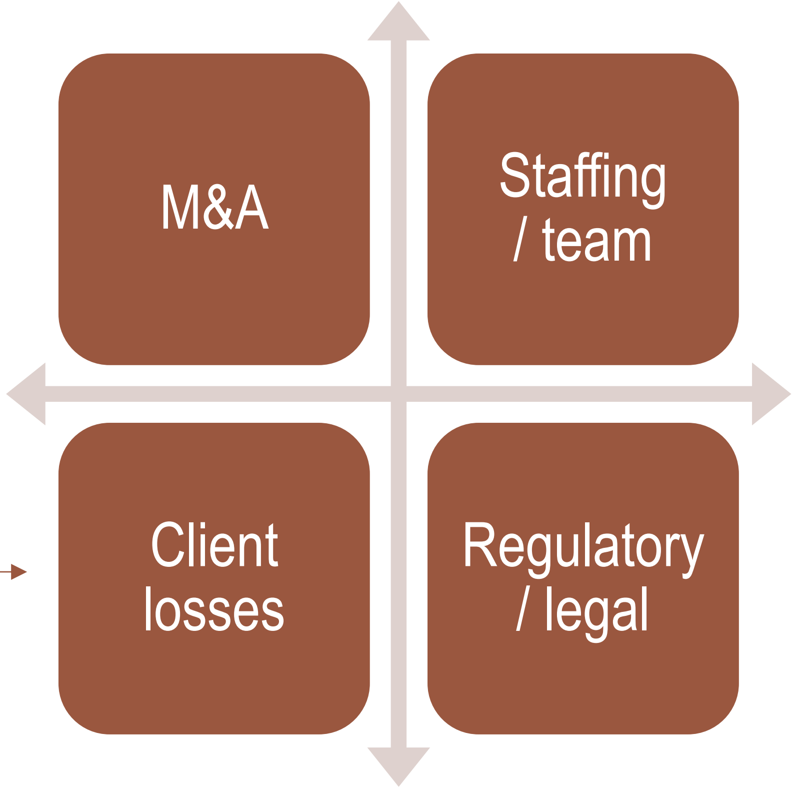
- Enhances committee alignment and focus.
- Fosters a culture of continuous improvement and accountability.
- Strengthens governance practices.
- Often provides enhancements in service and costs.
- Validates or redevelops benchmarks.
- Independently assesses performance.
- Compares implementation / allocation to appropriate peers.
- Assesses services and fees versus current marketplace.
- Memorializes institutional knowledge.

Most importantly, periodic evaluation (re)establishes confidence in your program and partners.

Periodic Evaluation

When to conduct an evaluation:

- ✓ Following a prudent process, we recommend conducting an evaluation every **3-7 years.**
- ✓ After substantial change at your organization:
  - Significant Board / staff turnover.
  - Means, needs, or objectives.
- ✓ Questionable or unacceptable performance or implementation.
- ✓ Meaningful changes at your service provider.



Case Study

Read the full case study.
Link available in the chat.

University Foundation OCIO Evaluation

Background

- Foundation had not gone to market in a number of years and were thus fulfilling their fiduciary duty to evaluate the program with the help of an objective third-party.

Process

- Process included fiduciary education, performance analysis, and presentation of findings.
- Also included comparison report vs. 60 similarly structured organizations, an assessment of benchmarks, and a bottom-up manager and OCIO fee review.
- Evaluation found slight underperformance and unsatisfactory benchmarks.

Results

- New fee structure with the current OCIO, **resulting in more transparency and a 15% reduction in fees.**
- Better benchmarking tied into the university's long-term goals and policy targets (revealing Alpha from both managers and OCIO)

Search (RFP)

What does a consultant / OCIO search entail?

At prudent intervals and when conditions dictate, investment stewards should embark on an objective consultant / OCIO search. Key components include:

- Sourcing and vetting appropriate candidates
- RFP development including criteria tailored to your organization
- RFP administration, vetting, and evaluation
- Track record analysis (for discretionary mandates)
- Due diligence
- Finalist presentation moderation
- Contract and implementation support

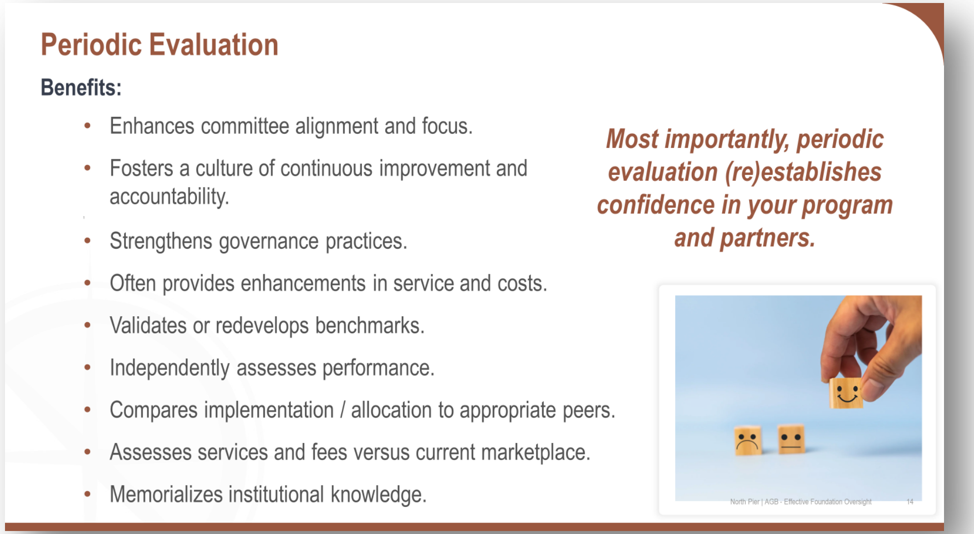
Search (RFP)

Benefits:

- All the benefits of a “Periodic Evaluation” →

Plus:

- Market assessment of leading-edge service
  e.g. Explore alternative service models like OCIO
- Optimize fees and implementation costs
- Source alternative views on asset allocation, liquidity and risk budgets, etc.
- Comparison vs. several candidate’s track records and best ideas
- Establish stakeholder ‘buy-in” on program and partners
- If retained, get your incumbent’s best thinking at its most competitive terms



Search (RFP)

When to conduct a search (RFP):

- ✓ Following a prudent process, we recommend conducting a ***search every 7-10 years, even when satisfied.***
- ✓ If contemplating moving to OCIO from consulting relationship
- ✓ Shortly after a substantial change at your organization
  - Major gift or growth that moves you up in class (e.g. @ $25mm, $100mm - $250mm, $1bln)
  - Board or IC leadership change that removes prior bias
- ✓ Undefendable poor performance or implementation.
- ✓ Meaningful changes at your service provider:
  - Game-changing M&A (who you hired gets acquired)
  - Substantial client losses
  - Regulatory / litigation concerns
  - Senior leadership upheaval

Case Study

[Read the full case study](#).
Link available in the chat.

University Foundation Investment Consultant Search (RFP)

Background

- In a previously conducted in-house RFP, foundation faced challenges in identifying differences between proposal responses and sought a seasoned search consultant to provide guidance throughout the process.
- Staffing transition in investment office.

Process

- Fiduciary and service model education and candidate review and selection.
- Extensive discovery led to custom RFP criteria, including values-aligned investing screens.
- RFP administration and evaluation, finalist presentation moderation, negotiation, and implementation support.

Results

The search resulted in the selection of a new consultant for the foundation, offering:

- Stronger support for private equity and other alternative investments.
- Robust operations and administration support; important factors given the transitions with the retiring staff.

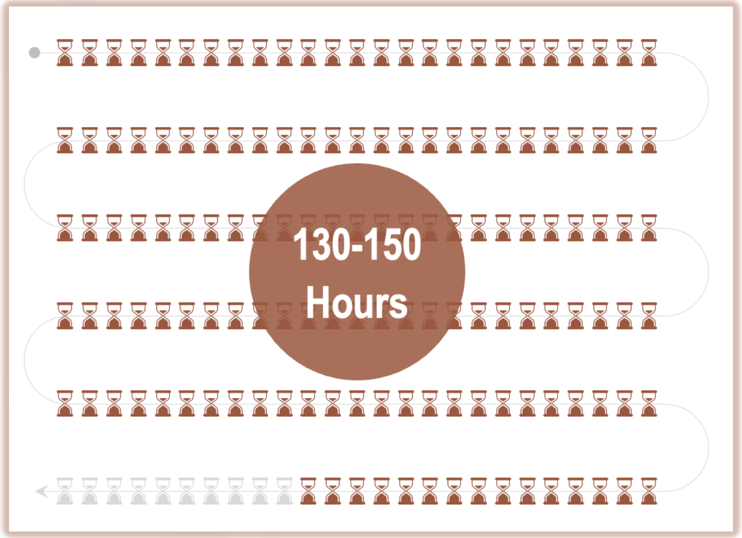
Challenges of Running an RFP In-House

- Unsure of the most appropriate candidates for your RFP, resulting in missed opportunities or overly broad candidate pool.
- Lack of access to databases or quantitative tools to run an effective evaluation of track records.
- Missing due diligence research, tools, and techniques.
- You may not possess the experience to read past and clarify marketing spin.
- Access to efficiency tools and procedures.
- You may not have sufficient time and resources to conduct an RFP.

Benefits of Working with a Search Consultant

- Optimized fees / negotiations
- Robust candidate databases and research
- Due Diligence (in research, proposals, and finalist presentations)
- Detailed and thorough investment performance analysis
- Time savings

Hours Spent Conducting an In-House RFP



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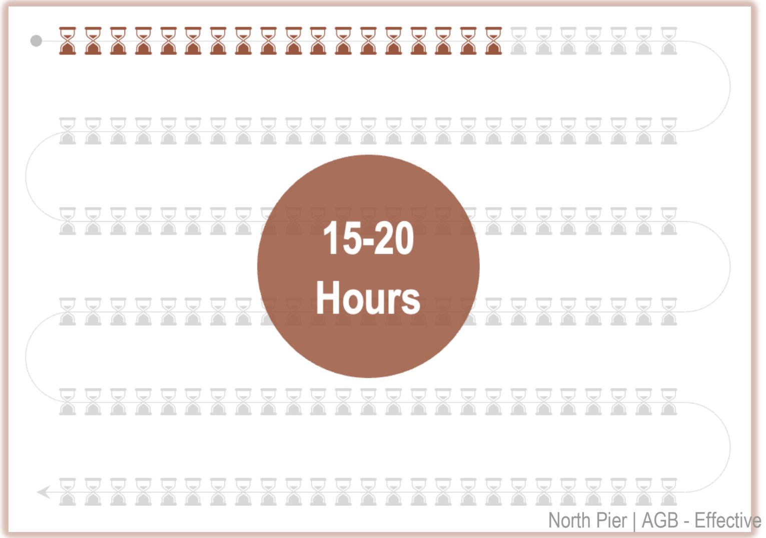
Hours Spent working with a Search Consultant



Questions & Answers

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Thanks for your time!

For more information, contact:

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Thank You

We greatly value your attendance and participation.

You will receive by email a recording of this webinar.

We kindly request that you share any feedback, and please feel free to contact AGB should you have follow-up questions.

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