Endowments and Foundations:
Adapting to a New Paradigm

While there are multiple segments of the $3.5 trillion[1] endowment and foundation market, this paper is directed to foundation and endowment organizations that provide investment advisory services. These organizations are typically exempt from registration under the Investment Adviser Act of 1940. Examples of such nonregistered investment advisory organizations are faith-based foundations managing investments for underlying charities and community foundations, many of which manage donor-advised funds.

While these nonregistered investment advisers have many of the same needs as their registered counterparts, in most cases they have not received the integrated, technologically empowered services that typify a modern investment solution. Many philanthropies may be surprised to learn that upgrading their technology and range of services may actually save them money, rather than costing more, and, after a training period, may require less time, rather than more.

Many nonprofit organizations responsible for managing investment assets are underserved by traditional investment consultants.

Our research shows that the expectations of nonprofit advisory clients, who have entrusted assets to the care of a foundation or endowment, continue to evolve based on the level of services they enjoy in the for-profit investment arena. For example, not-for-profit advisory clients increasingly demand greater transparency into a charity's investment performance and process and often require real-time access to account data. This dynamic is forcing nonprofit advisory organizations to address a number of competitive shortcomings, such as:

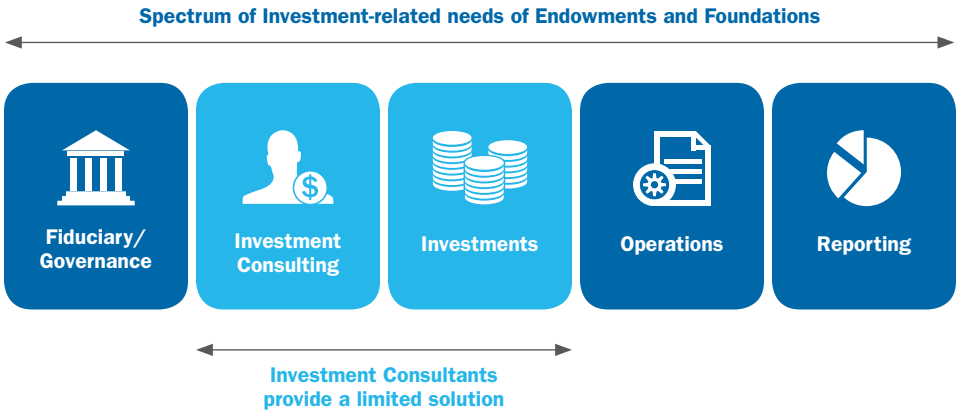
- Professionally created investment proposals
- Investments with clearly defined costs
- Mobility and on-line access to account information
- Timely performance reporting.

The bottom line: Charities need to provide services akin to those offered by banks, brokerage firms and custodians to remain a viable contender for charitable assets. Many charities find themselves playing catch-up on the technology front in order to provide such services. The questions is—where does the executive director find the budget to offer these types of services?

In this paper, we will explore how nonprofits can leverage their existing investment consulting budget to buy a more

[1] Bank of America 2010 Study of High-Net-Worth Philanthropy: Issues Driving Charitable Activities among Affluent Households

The New Paradigm Suggests a Holistic Approach



Nonprofit investment advisors have a broad range of investment-related responsibilities. However, traditional investment consulting firms provide a narrow set of services to their nonprofit clients, focused primarily on investments and portfolio management.

comprehensive basket of services and how technology can empower nonregistered investment advisers to be more competitive in attracting assets, reducing expenses and improving fiduciary oversight.

The Traditional Model

An investment committee is likely to be populated by volunteer members from a range of occupations who are passionate about the mission of the organization. (Often, it also includes financial professionals.) Typically, in order to carry out their fiduciary and stewardship responsibilities, nonprofit investment advisory organizations and their investment committees have relied on the services of investment consultants. The traditional model for serving nonprofits includes a solution set that focuses narrowly on investment management.

These services include:

- Manager due diligence
- Asset allocation
- Portfolio construction and
- Quarterly reporting to the investment committee.

While the decisions around the investment portfolio (see graphic above) are paramount, nonprofits are often left to their own devices to perform many of the labor-intensive activities involved in governance, portfolio administration, and reporting (see graphic above) such as:

Fiduciary & Governance

- Investment and spending policy review and ongoing monitoring
- Transparency into investment costs
- Measuring existing operating procedures against best-practice models
- Board training on fiduciary and stewardship duties.

Comprehensive Investment Management Requirements

Need	Traditional Model	New Paradigm Solution
Fiduciary & Governance Support	• Limited	• Transparency at all levels of the investment management process • IPS and Spending Policy review • Access to AIF trained consultants, with best practices advice
Investment Consulting Services	• Manager due diligence • Asset Allocation • Portfolio Construction • Reporting	• Manager due diligence, asset allocation, portfolio construction, reporting, IPS tracking tool, daily monitoring capability • Dynamic portfolio review • Real time reporting
Operations	• Limited	• Electronic custodial interface to provide seamless, daily pricing and reconciliation on accounts, data aggregation of assets held at multiple custodians • Portfolio administration and trading • Treasury /Cash Management
Reporting	• Monthly Reports • Internal reconciliation • Staff resources required	• Outsourced services • Daily Reporting • Online Access • Daily reconciliation • Customized performance reporting • Mobility

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Operations
- Portfolio rebalancing
- Daily reconciliation and valuation
- Cash and treasury management functions.

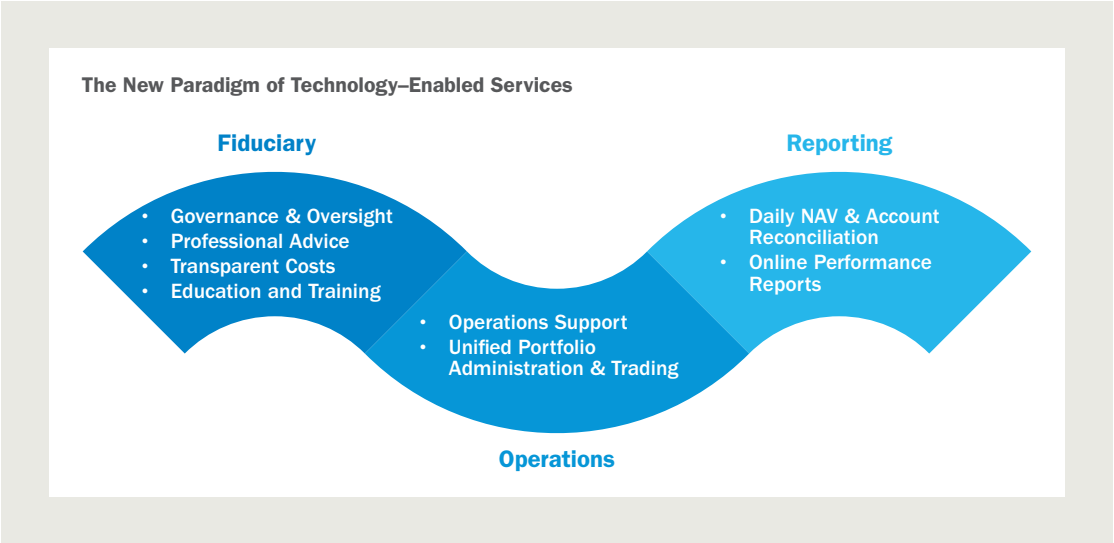
Enhanced Reporting
- Customized donor reporting
- Daily, tailored reporting to management and Investment Committees
- Online access to account information.

The new paradigm suggests that nonprofits should ask for more help, and get more "bang for their investment consulting buck." A comprehensive list of investment and administrative services required of today's nonprofits appears in the table above.

The New Paradigm

Look for a provider that can deliver comprehensive solutions

As charities begin to manage their own investment portfolios and serve as nonregistered investment advisers for "sister" or partner entities, their needs expand dramatically. Meeting these needs in a comprehensive manner may seem daunting or unaffordable. Rather than building their own technological solution from scratch, however, these charitable-hybrid advisors can outsource to technologically savvy investment service providers such as turn-key asset managers (TAMPs), broker-dealers or registered investment adviser (RIA) platforms.



The need for nonregistered investment advisors to adopt a new paradigm that embraces technology, transparency and collaboration has never been stronger. Those that are doing so are the fastest growing segment–and we believe that groups that do not modernize their investment management operations will lag farther and farther behind.

As philanthropies, and specifically nonregistered investment advisors, continue to evolve, they will learn to harness the power of technology and information—to empower both their missions and their management. We suggest that nonregistered investment advisors find partners to help provide the services they need to compete effectively. Many philanthropies may be surprised to learn that upgrading their technology may actually save them money, rather than costing more, and, after a training period, may require less time, rather than more.

James Lumberg is Co-Founder and Managing Director, Envestnet Inc., a leading provider of unified wealth management technology and services to investment advisors. Envestnet offers ideas, best practices and resources that allow advisors, foundations and endowments to deliver a broader value proposition. Our technology solutions can empower nonprofits by offering scalability, transparency, and governance best practices.

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