



Fiduciary Challenges For Mid/Small-Size Endowments and Foundations

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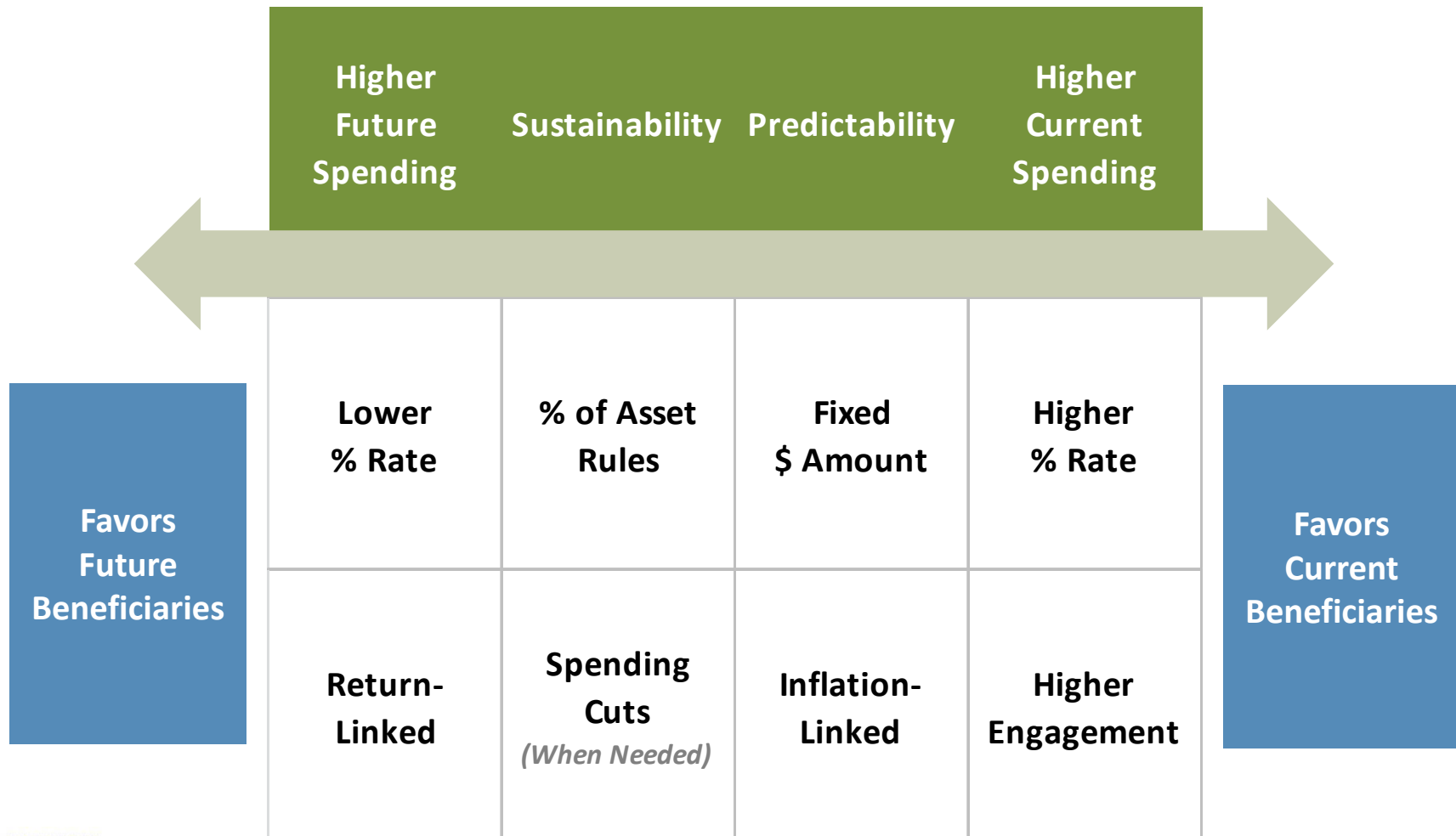
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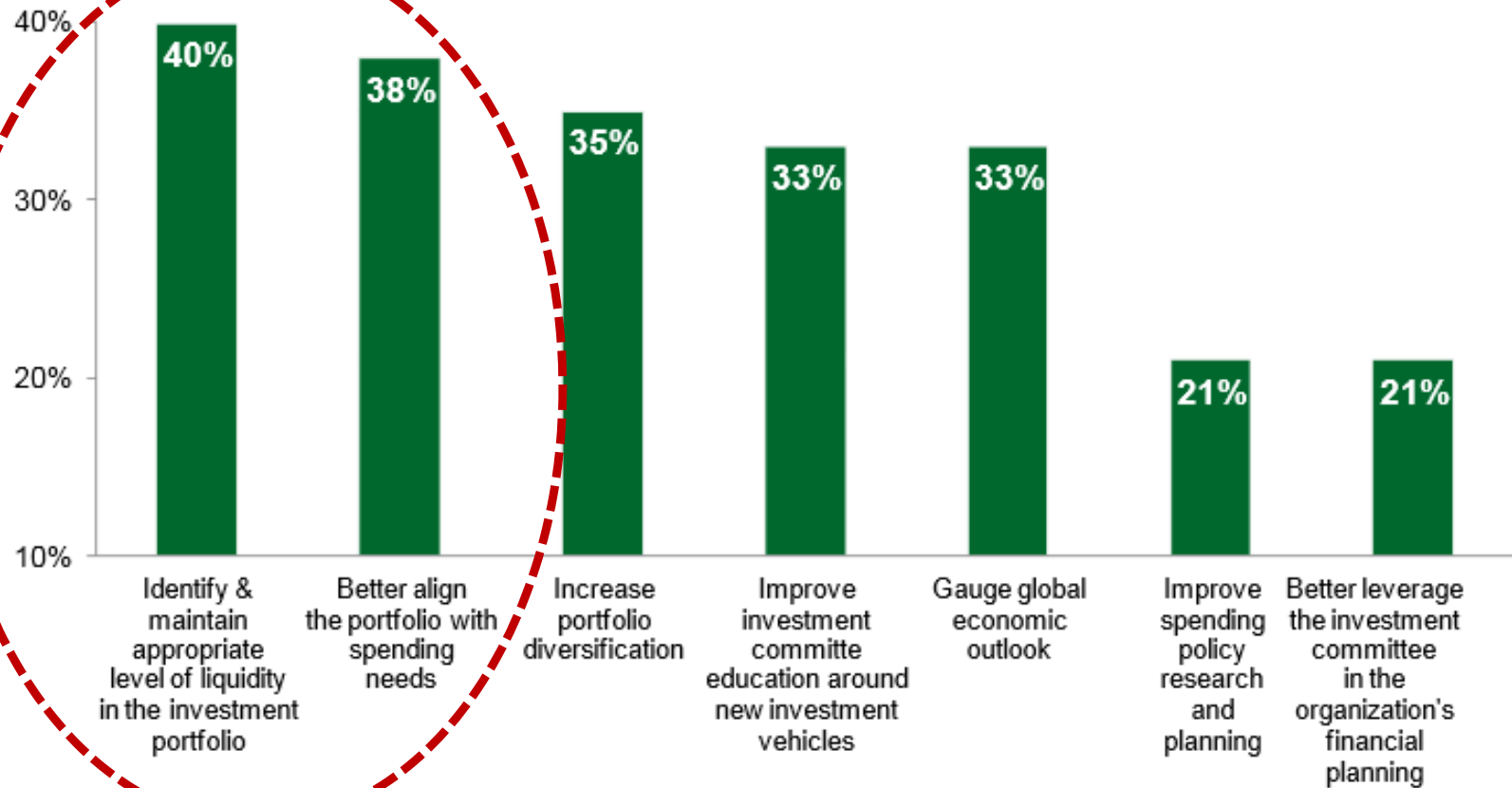
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They Generally Want to Maintain Spending in Real Dollars



And to Maintain Investment Liquidity

HIGH PRIORITIES OVER THE NEXT 12 MONTHS



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Source: SEI E&F Study (2014).

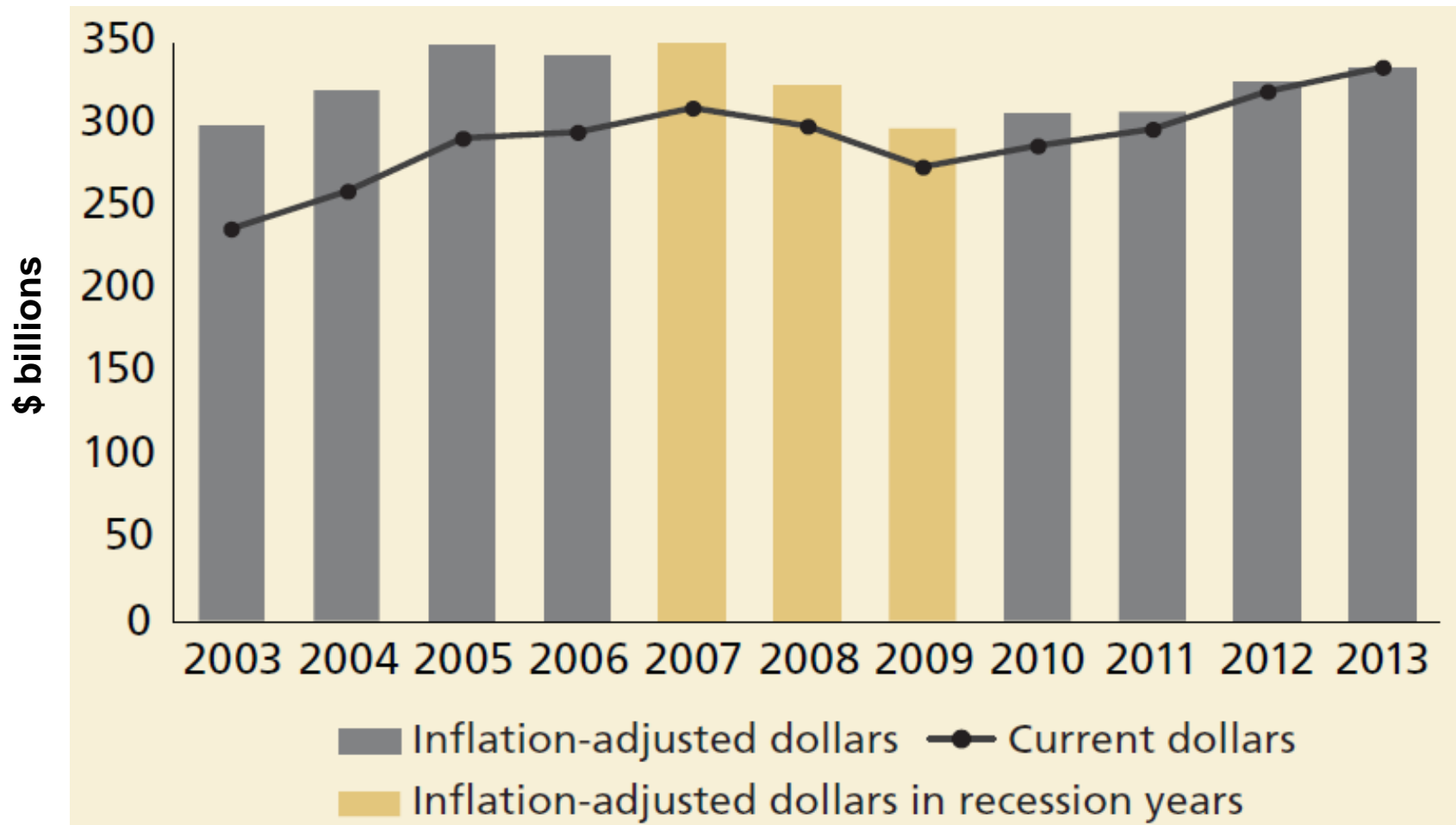
They Have Recently Been Under Pressure

Percentage of E&Fs Under Water For Fiscal Years 2008, 2009, 2010

Size of Endowment / Foundation	2008	2009	2010
Over \$1 billion	2.1%	11.5%	9.8%
\$501 million to \$1 billion	2.0%	20.2%	11.1%
\$101 million to \$500 million	3.7%	19.1%	13.3%
\$51 million to \$100 million	6.2%	22.9%	14.5%
\$25 million to \$50 million	3.2%	25.8%	14.5%
Under \$25 million	9.7%	26.0%	14.7%



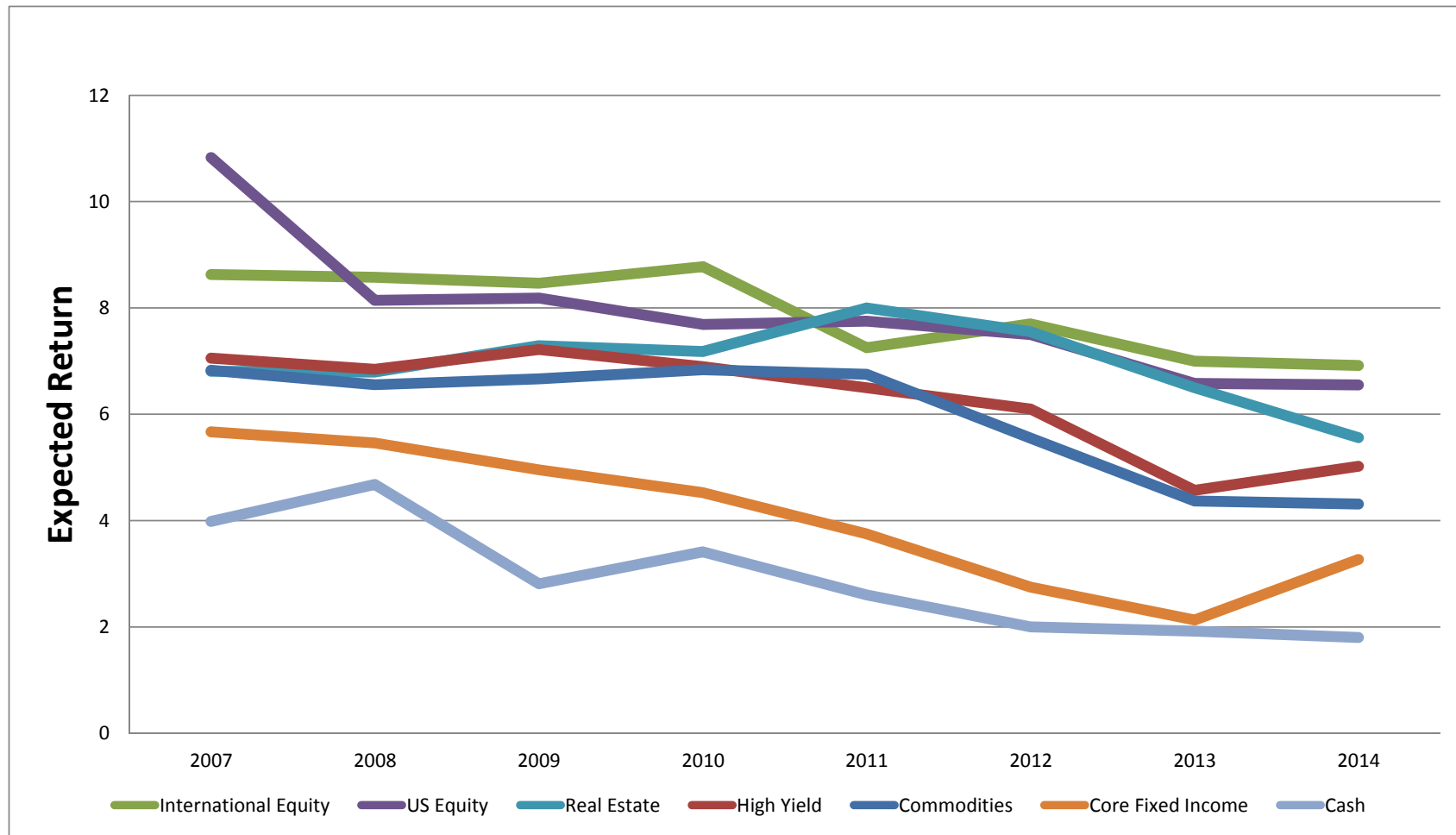
One Reason: Giving Remains Below Pre-Crash Levels



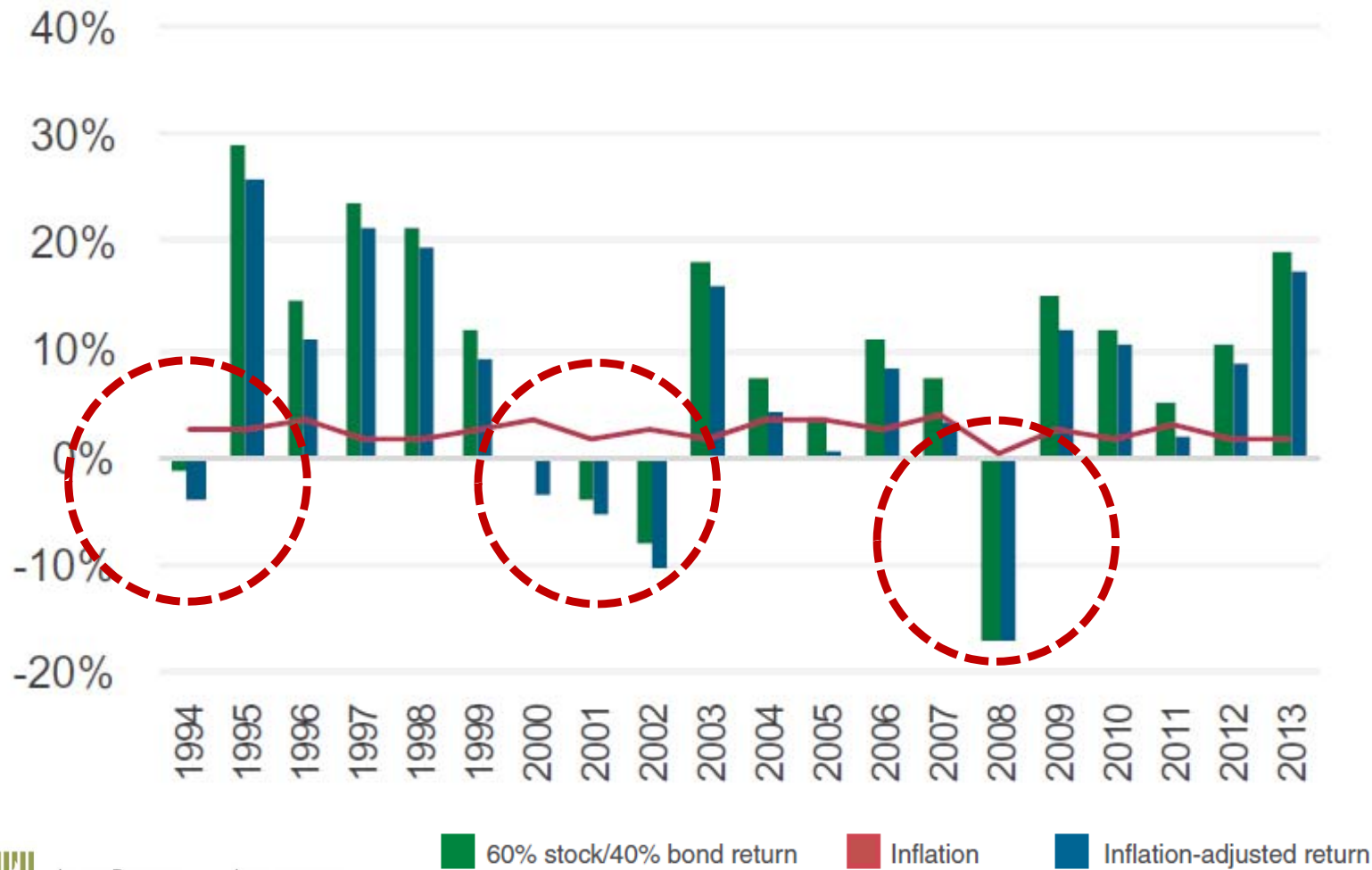
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Source: Lilly Family School of Philanthropy (2014).

Another: Falling Long Term Expected Returns



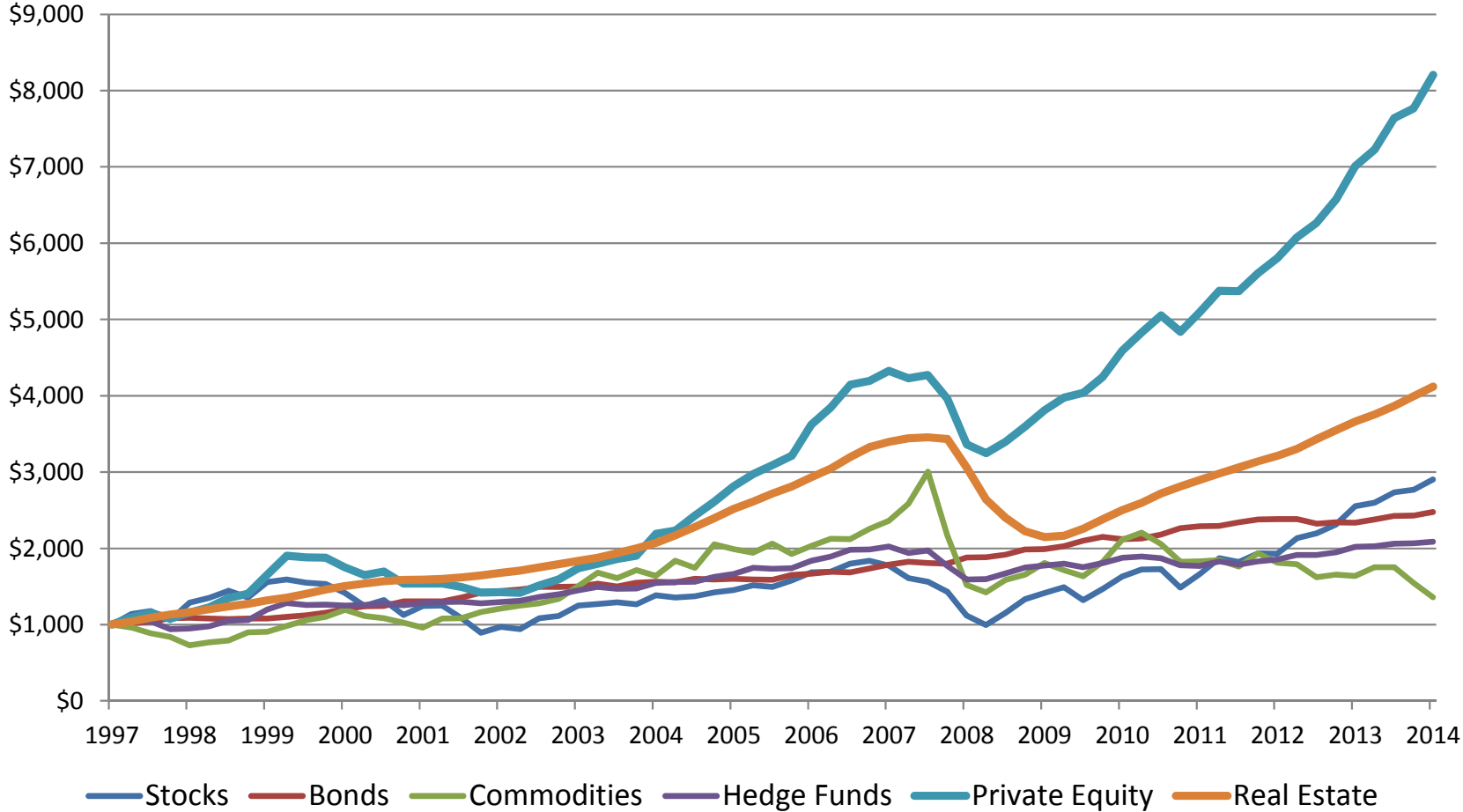
A Traditional 60/40 Portfolio Isn't the Answer



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Source: Morningstar.

What About Alternatives? Over Time They've Added Value



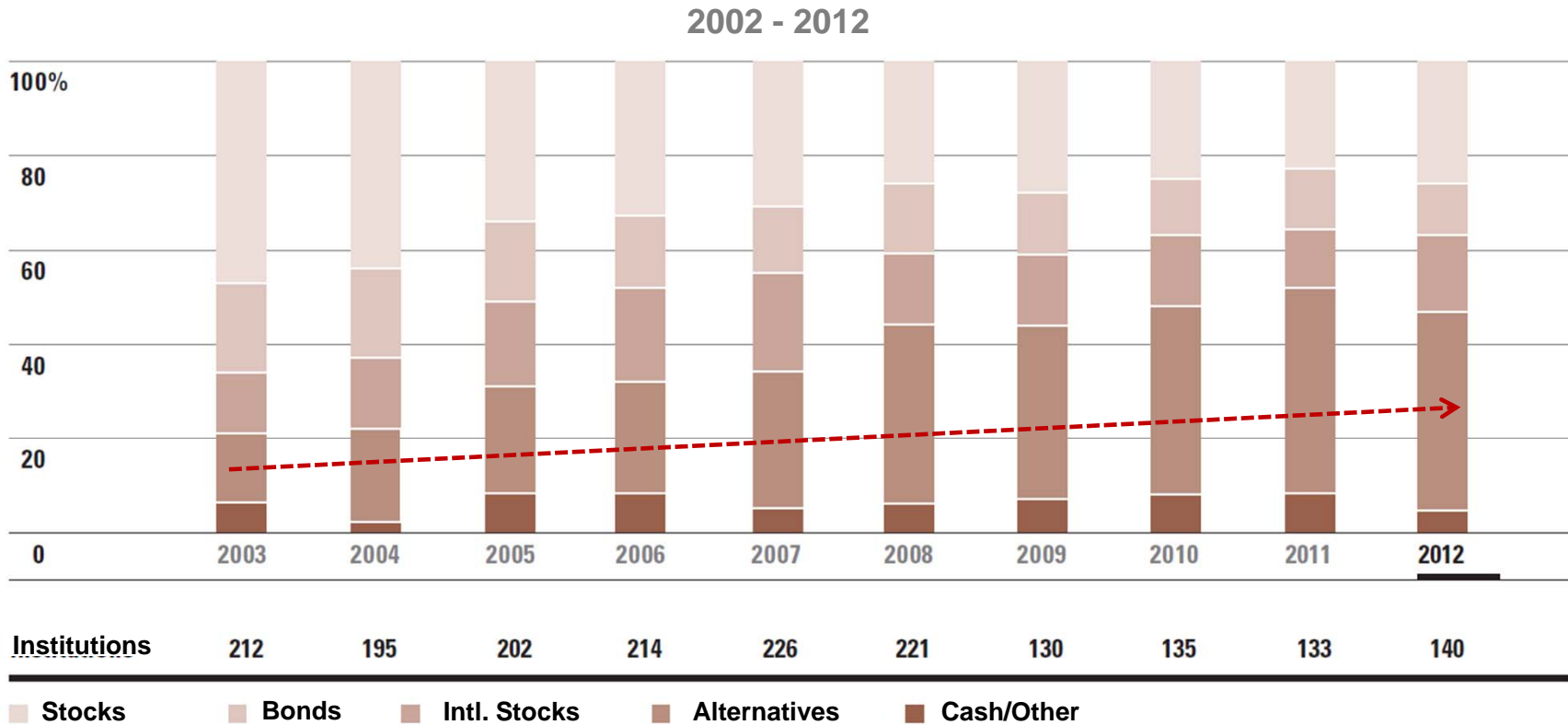
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And Have Marginally Reduced Risk

	NACUBO E&F <\$500 million	NACUBO E&F > \$1 billion	Harvard Investment Policy	Sample Client
Public Equity	53.0	31.0	33.0	40.0
Public Fixed Income	25.0	12.0	10.0	16.0
Alternatives	22.0	57.0	57.0	44.0
Expected Return	6.2	6.6	6.9	6.8
Expected Risk	12.1	11.5	11.7	10.9



E&Fs Have Gradually Increased Their Exposure



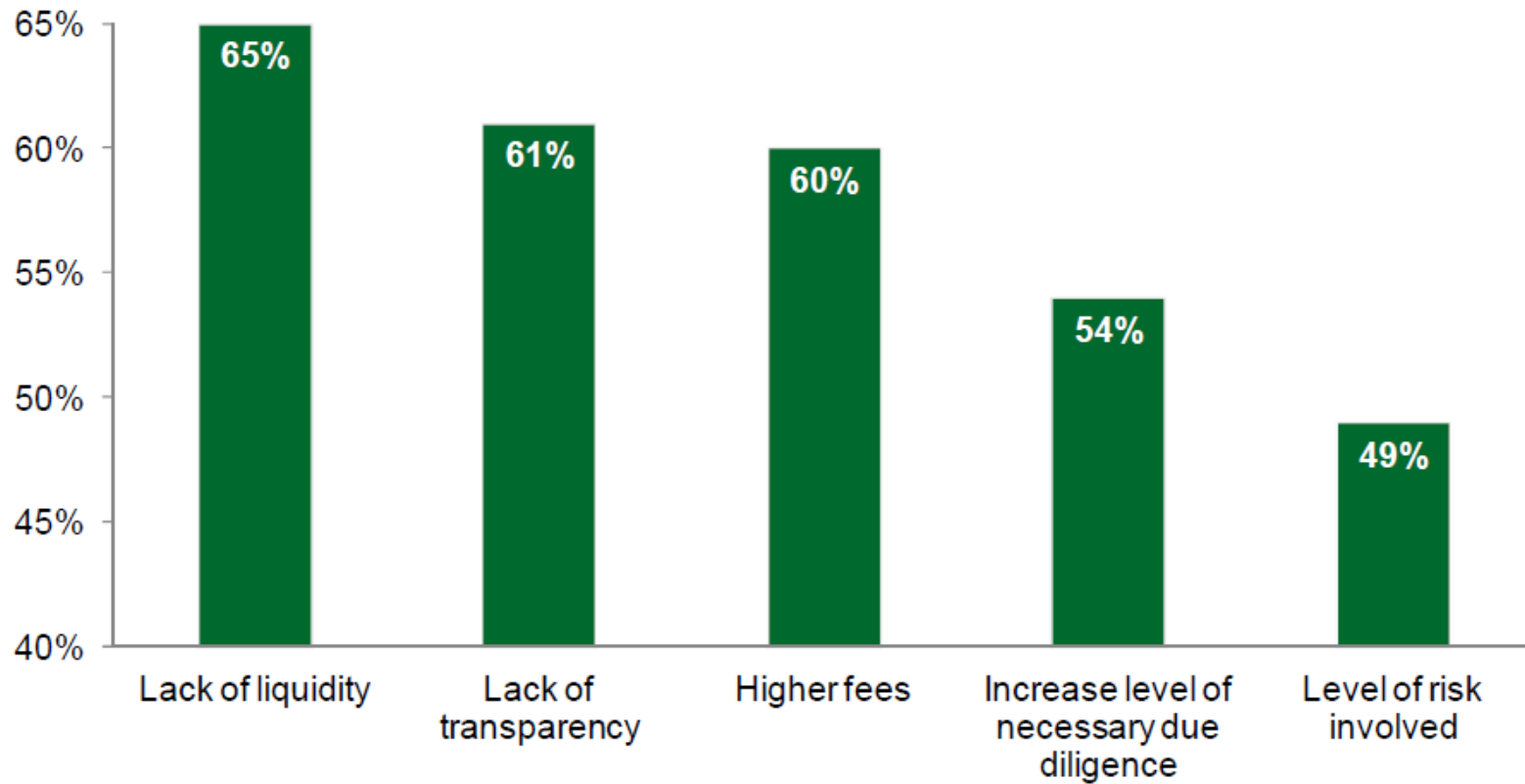
**dollar-weighted*



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Source: Council of Foundations Study (2013).

But Because of Multiple Concerns



Small/Mid-Size E&F's Have Allocated Less to Them

Size of Endowment / Foundation	Domestic Equities	Intl. Equities	Fixed Income	Alternatives	Short-term Securities/ Cash
Over \$1 billion	13	17	8	59	3
\$501 million to \$1 billion	20	19	11	45	5
\$101 million to \$500 million	27	19	15	34	5
\$51 million to \$100 million	33	20	20	23	4
\$25 million to \$50 million	36	17	22	20	5
Under \$25 million	43	14	26	11	6



Resulting in Lower Long Term Returns

Size of Endowment / Foundation	1 Year %	3 Year %	5 Year %	10 Year %
Over \$1 billion	16.5	9.5	12.1	8.2
\$501 million to \$1 billion	15.8	9.1	11.8	7.3
\$101 million to \$500 million	15.5	8.9	11.8	7.1
\$51 million to \$100 million	15.2	8.7	11.4	6.5
\$25 million to \$50 million	15.2	8.9	11.4	6.5
Under \$25 million	15.5	9.4	12.0	6.6



Investing in Alternatives Isn't Easy

- One has to balance competing portfolio requirements:
returns vs. stability, liquidity, transparency
- Asset – liability modeling is complex
- Access to attractive funds can be limited
- Building a portfolio can take years
- Search and monitoring efforts are demanding
- Trustees are often unfamiliar with the strategies
- Reporting and accounting tend to be complex
- Fees are quite high



An Increasingly Popular Approach: Outsource Responsibility

	Traditional Consulting	Limited Discretion	Full Discretion
Investment Policy	Client	Client	Client
Asset Allocation	Client	Client	Consultant / OCIO
Investment Manager: Hiring / Firing	Client	Consultant / OCIO	Consultant / OCIO
Reporting	Consultant / OCIO	Consultant / OCIO	Consultant / OCIO
Trustee Education	Consultant / OCIO	Consultant / OCIO	Consultant / OCIO

