



Structure and Best Practices for Endowments

Why you don't need Warren Buffett on your Investment Committee



Executive Summary

All stakeholders need to understand how your school's assets are invested and how the investments fit into the institution's overall financial landscape. Furthermore, there is a straightforward framework that can help every institution embrace best practices.

Regardless of your level of assets, the keys to successful endowment management are the same!

Harpowell loves structure. It is structure or "framework", not having Warren Buffet on your investment committee, that brings success!

We will wrap-up with a quick overview of ESG investing and discuss what you need to know about it.

Harpowell Capital Advisors, is an investment boutique dedicated to serving not-for-profit institutions, including several AISNE/ISANNE members. We feel our specialization brings distinct advantages for the nonprofits we serve. We love our niche and invite you to reach out if we can be a resource for you.

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Endowments 101

- What is an endowment and what role does it play.
- What is the Endowment Model for Investments.
- What is the Yale Endowment Model for Investments.
- What are the Essentials for every school's endowment.
- **Big** vs. Small: How does the level of assets impact strategy & structure.

Framework

- Investment Committee Charter
- Investment Policy Statement
- Benchmarks for Performance

Investment Committee Charter

The Committee Charter defines and clarifies the scope and range of roles to ensure the endowment is efficiently and responsibly managed.

It Defines:

- Purpose of Investment Committee
- Membership of Investment Committee
- Duties and Responsibilities
- Empowered to Evaluate and Act
- Governance

Investment Policy Statement

The Investment Policy Statement outlines the marching orders for the Investment Managers and empowers the committee to hold managers accountable.

It Defines:

- Mission of the endowment and the role the Endowment plays for your organization.
- Philosophy
- Investment Objectives
- Spending/Distribution Policies
- Asset Allocation /Diversification Targets and Limits
- Benchmarks for Performance

Benchmarks

Established Benchmarks should reflect the economic goals for the institution along with the institution's risk tolerances. Importantly, they enable the Investment Committee to hold the manager's feet to the fire!

Benchmarks:

- Are investable and utilize widely recognized indices.
- Are custom for your institution.
- Are reviewed relative to performance at every meeting.
- Are a starting point for performance conversations.
- Protect the objectivity and structure of your oversight as a fiduciary.
- Rarely change.

Individual Investment Strategy

Make sure your endowment is managed for your institution!

Specifically, address:

- Liquidity requirements, including revenue requirements to ensure that endowment distributions through the cycle are least impactful, by maintaining a proportion of the portfolio in diversified and liquid assets.
- Your appetite for volatility. Every institution needs to have a risk budget that they can afford. Harpswell invests in a prudent and deliberate approach to ensure the volatility you realize is consistent with the right strategy for you.
- Help maximize long-term endowment payout through careful investment selection and very low fees. Make sure you work with a fiduciary who will be your advocate.
- Enterprise risks. If your institution has a meaningful exposure to an industry or risk factor (i.e., commodities, interest rates or public policy), make sure you incorporate those factors into your investment plan!

Keys for Investment Committee Success

- Leadership with a structured approach to oversight
- Objectivity with ability to always serve as a fiduciary
- Professional relationship with manager
- Sound lines of communication with Leadership & other committees
- Clear understanding of school mission, strategy and risks
- Create an environment of accountability
- Respect the power of diversification and the limits of investment managers
- Include periodic framework assessments (annual) and develop an RFP policy
- Ask questions –nobody understands everything! No dumb questions!
- Don't overlook custody and controls to prevent "misappropriations"
- Be vigilant but micromanagement can come at the expense of returns

Investment Meeting Checklist

- Benchmark Performance and color on what impacted returns
- Endowment performance and performance overview
- Endowment Volatility relative to the benchmark
- Endowment positioning relative to limits/benchmark
- Manager outlook and tactical overlays
- Manager's view on key risks
- Strategy for distributions
- Where did we do well? Not so well?
- Top five exposures (stocks/bonds/funds)

8 Questions You Should Ask Every Year

- Please outline all the fees we are paying and all your sources of revenue.
- Are you a fiduciary?
- Are there any noteworthy updates on your FORM ADV?
- Have there been any departures from your firm or team? Additions?
- How many clients have you gained and/lost last year?
- Do you anticipate any changes at your firm over the next year?
- What percentage of your business is not-for-profit institutions? Please outline other key areas of business outside endowment management.
- How does your firm embrace inclusion and equality?

7 Questions You Should Ask Every Meeting

- How did we do versus our benchmark?
- How does our risk profile compare to the benchmark? Has it changed?
- What were the drivers for performance?
- What should we have learned about our investments this period? E.g., 1Q2020? 2Q2020?
- What do you see as our biggest risk(s)?
- Do you have any suggestions or concerns?
- Have there been any significant developments with you or your firm (or any of our managers) that we should know about?

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What is ESG?

Environmental, Social and Governance (ESG) Criteria is a set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. Investors who want to purchase securities that have been screened for ESG criteria can do so through socially responsible mutual funds and exchange-traded funds.

Investopedia <http://www.investopedia.com/terms/e/environmental-social-and-governance-esg>

Why Should I be focused on ESG?

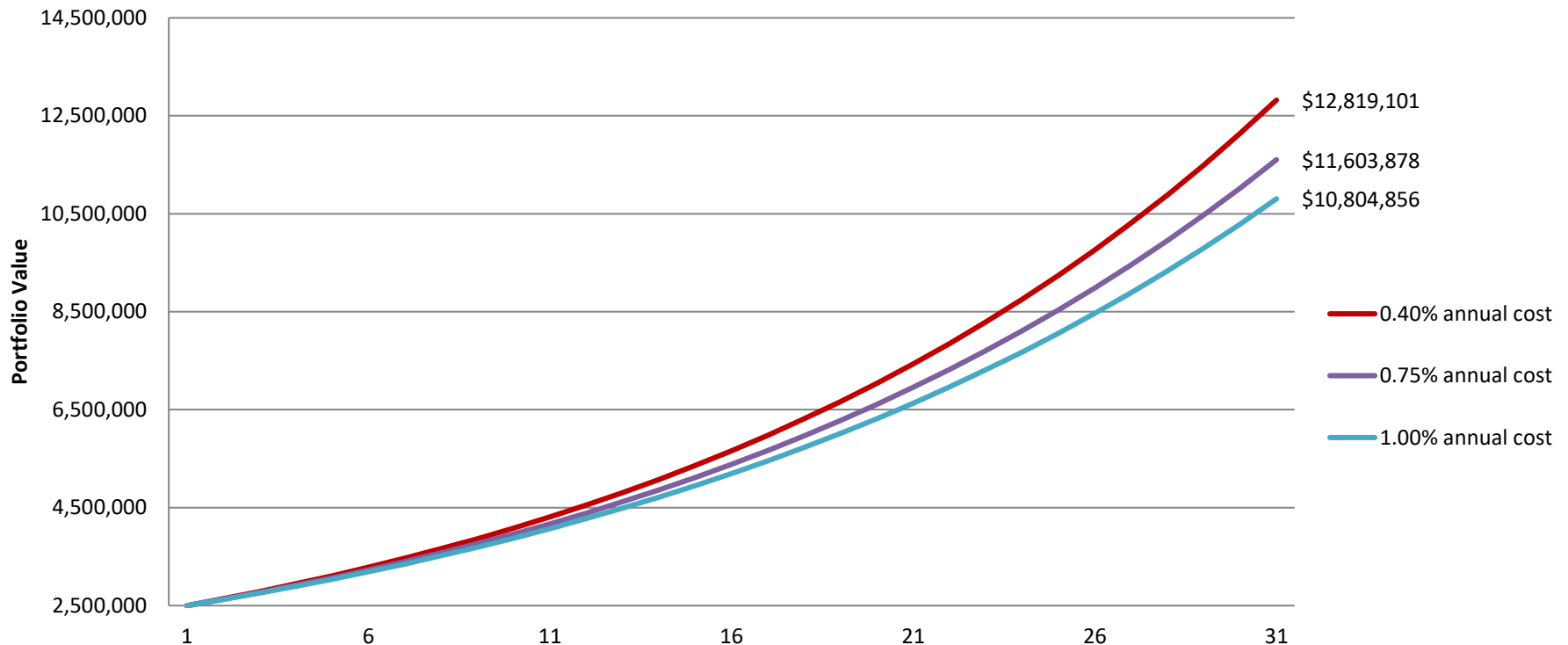
- A significant Trend in the Non-profit Endowment World
- Major Donors' Passion(s)
- People will Ask – Have an answer
- It is consistent with our Philosophies and Mission



Long-term fees – Competitive Fees Really Matter

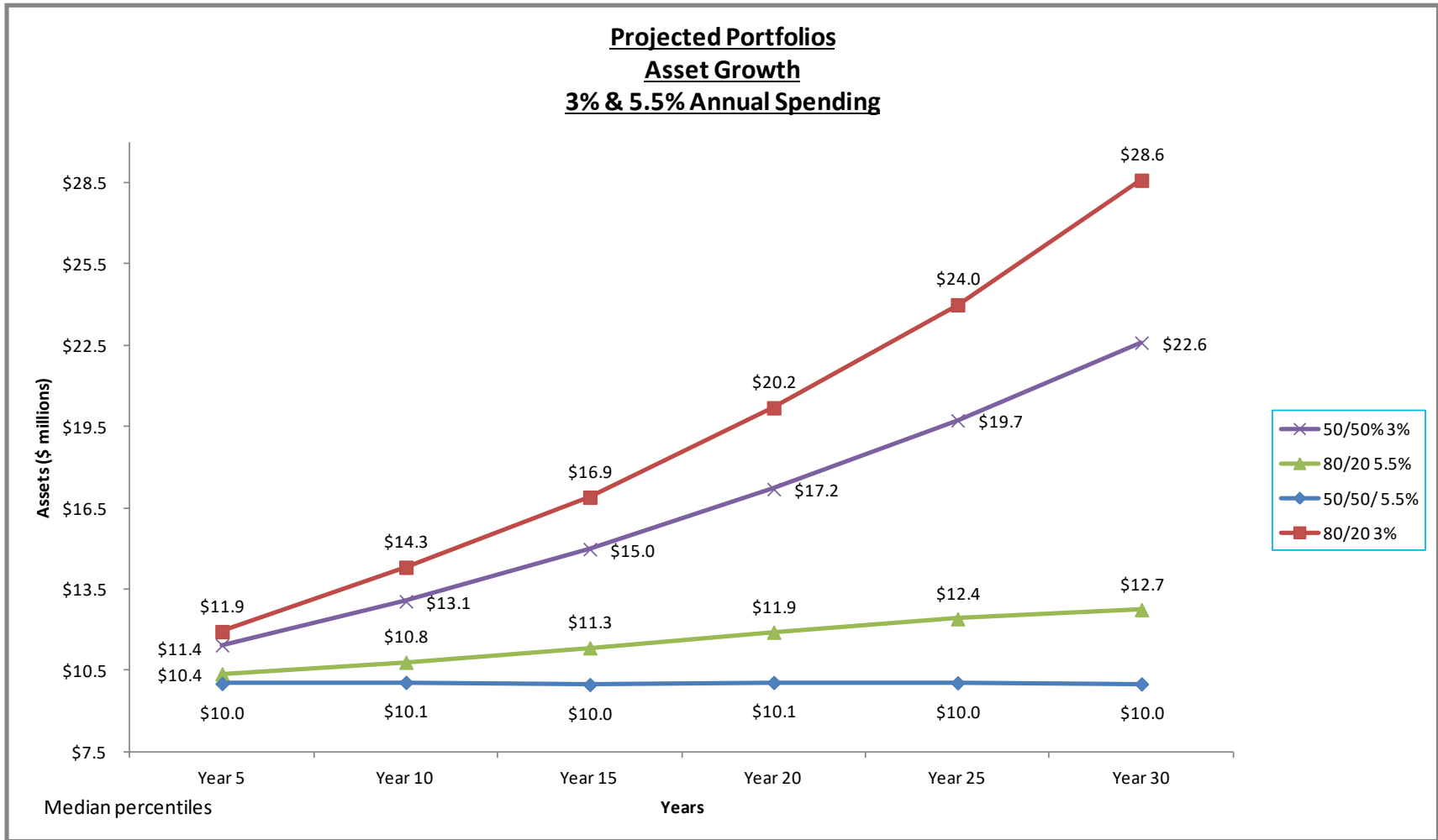
Fees are the key determinate of long-term value that you can control

Long-term impact of investment costs on portfolio balances



Lower fees can translate to over 20% in additional assets over 30 years

Which Endowment is the best for your School?



Which Endowment is the best for your School?

Portfolio Stress Analysis

Stress Period		Market		Drawdown Period	Cumulative Loss	Months to Recovery	High Water Date
		Peak	Trough				
Ruble Crisis	Sample 50/50 Portfolio	Jun-98	Aug-98	2	-7.07%	3	Nov-98
	Sample 80/20 Portfolio	Jun-98	Aug-98	2	-12.64%	3	Nov-98
	<i>S&P 500</i>	<i>Jun-98</i>	<i>Aug-98</i>	<i>2</i>	<i>-15.37%</i>	<i>3</i>	<i>Nov-98</i>
Tech Bubble	Sample 50/50 Portfolio	Aug-00	Sep-02	25	-12.76%	11	Aug-03
	Sample 80/20 Portfolio	Aug-00	Sep-02	25	-30.27%	17	Feb-04
	<i>S&P 500</i>	<i>Aug-00</i>	<i>Sep-02</i>	<i>25</i>	<i>-44.73%</i>	<i>49</i>	<i>Oct-06</i>
Banking Crisis	Sample 50/50 Portfolio	Oct-07	Feb-09	16	-28.87%	19	Sep-10
	Sample 80/20 Portfolio	Oct-07	Feb-09	16	-45.08%	26	Apr-11
	<i>S&P 500</i>	<i>Oct-07</i>	<i>Feb-09</i>	<i>16</i>	<i>-50.95%</i>	<i>37</i>	<i>Mar-12</i>
Euro Crisis	Sample 50/50 Portfolio	Apr-11	Sep-11	5	-8.08%	5	Feb-12
	Sample 80/20 Portfolio	Apr-11	Sep-11	5	-15.76%	12	Sep-12
	<i>S&P 500</i>	<i>Apr-11</i>	<i>Sep-11</i>	<i>5</i>	<i>-16.26%</i>	<i>5</i>	<i>Feb-12</i>

Note: Sample portfolio is assumed to rebalance quarterly

Biography

John P. Moore, CFA – Portfolio Manager

- Education

- Hobart College (B.A.)
- London School of Economics (M.S.)
- Chartered Financial Analyst (CFA)

Jack is a Chartered Financial Analyst with more than 25 years of finance experience and more than 20 years focused on institutional investing. Most recently, from 2006 to 2012, Jack successfully managed a long-short hedge fund with offices in Villanova, Pennsylvania and Portland, Maine. Prior to that, he was a Principal with The Vanguard Group where he was a Senior Analyst working directly for several of Vanguard's funds and participated in the Chairman's senior strategy efforts. Prior to joining Vanguard, Jack was a Vice President and Portfolio Manager with Bryn Mawr Capital (a hedge fund) overseeing all the firm's investments in energy and basic materials. Prior to Bryn Mawr, Jack served as a fixed income Analyst at MetLife.

Prior to his career in investment management, Jack served as a Financial Expert for the Federal Energy Regulatory Commission where he would testify in Federal proceedings on issues relating to investments in and the finances of utilities. Jack also served as the Press Assistant to the U.S. Senate Majority Leader George J. Mitchell.

A dedicated civic participant, Jack was elected to serve on the Board for several institutions including JD RF, the Good Will-Hinckley School (previous Chair), Portland Museum of Art, the United States Biathlon Foundation, and Gelato Fiasco. Jack also was tapped to serve on the investment committees of the University of Maine System (\$500MM), Maine Medical Center (\$1B), and the (Chairman) Portland Museum of Art (\$40 MM). Jack was also appointed by Maine's Governor to serve on the Maine NextGen 529 Advisory Committee (\$10B). Jack lives in Yarmouth with his wife Alison, their three boys and two Labrador retrievers.

Disclosures

General

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Risks

Harpswell invests in stocks, bonds, mutual funds and sometimes alternative investments. Each asset class, along with each individual investment, carries varied degrees of risk of loss. Harpswell analyses investments from a long-term fundamental perspective and aims to engineer portfolios that have an attractive risk and reward balance. Despite a strong bias for diversification, all Harpswell portfolios do carry risks of losses, particularly in times of escalated market volatility. Harpswell does focus on capital preservation yet extraordinary markets can potentially generate material losses. Our investment decisions and recommendations are based upon our professional judgment. We do not guarantee the results of any of our investment decisions or recommendations, the future performance of your Assets or Accounts, any specific level of performance, the success of any Independent Manager, investment decision, strategy or recommendation made by an Independent Manager, or the overall success of the Account. Past performance is not indicative of future results. Investments in your Account may go up or down in value depending on market conditions. Alternative investments are designed only for sophisticated investors who are able to bear the economic risk of losing all of their investment. Alternative investments: (1) often engage in leveraging and other speculative investment practices that may increase the risk of investment loss; (2) can be highly illiquid; (3) are not required to provide periodic pricing or valuation information to investors; (4) may involve complex tax structures and delays in distributing important tax information; (5) are not subject to the same regulatory requirements as mutual funds; and (6) often charge high fees.

Current Information

Opinions expressed are current opinions as of the date appearing in this material only. While the data contained herein has been prepared from information that Harpswell Capital Advisors believes to be reliable, Harpswell Capital Advisors does not warrant the accuracy or completeness of such information.

Use of Indices

Market index information shown herein, such as that of the S&P 500 Stock Index, is included to show relative market performance for the periods indicated and not as standards of comparison, since these are unmanaged, broadly based indices which differ in numerous respects from the portfolio composition of the Fund. Market index information was compiled from sources that Harpswell Capital Advisors believes to be reliable. No representation or guarantee is made hereby with respect to the accuracy or completeness of such data.

Index Definitions

The S&P 500 Stock Index is an unmanaged market capitalization index of 500 US equities generally considered to be representative of US stock market activity. The Morgan Stanley Capital International World Index is a market capitalization-weighted equity index of over 1,500 stocks traded in 22 world markets. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ Stock Market. The Index is market value-weighted. The SB World Bond Index is a market capitalization weighted index of 18 Government bond markets composed of sovereign debt denominated in the domestic currency. The Lehman Aggregate Index is a benchmark index made up of the Lehman Brothers. The Hennessee Hedge Fund Indices® are calculated from performance data obtained from publicly available information, internally developed data and other third party sources believed to be reliable. MSCI EAFE is a stock market index that is commonly used as a benchmark for the performance of major international equity markets. The MSCI Emerging Market Index is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. The Russell 1000 seeks to track the investment results of an index composed of large- and mid-capitalization U.S. equities. The Russell 2000 seeks to track the investment results of an index composed of small-capitalization U.S. equities. The Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Barclays Capital Global Aggregate Bond Index is designed to be a broad based measure of the global investment-grade, fixed rate, fixed income corporate markets outside the United States. The Barclays Capital US Gov/Credit bond Index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year.

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The logo for Harpswell Capital Advisors, LLC features the name "Harpswell" in a large, elegant, cursive script. Below it, the words "CAPITAL ADVISORS, LLC" are written in a smaller, clean, sans-serif, all-caps font.

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