

CASE STUDY

Improving a Foundation's Spending Potential through our Outsourced Chief Investment Officer Solution

A small foundation had the same goal as most foundations: to maximize long-term spending potential through asset growth. An undefined investment policy, inefficient portfolio characteristics and inadequate reporting stood in its way. The client turned to us to find a solution.

In response, our Endowments and Foundations practice area delivered a custom solution through our Outsourced Chief Investment Officer (OCIO) offering. Once implemented, this solution led to several favorable results that better positioned the foundation to meet its goal.

THE CHALLENGE

The client recognized it needed to outsource several portfolios that were managed by a local broker. These portfolios were suffering from the following three key related issues:

An undefined investment policy

The absence of a formal investment policy statement left the portfolios without clear direction. It was also contributing to the below two issues.

Inefficient portfolio characteristics

The portfolios lacked sufficient global diversification and were exposed to unnecessary liquidity risks. They were

mostly invested in individual U.S. stocks and illiquid fixed income securities.

Inadequate reporting

Reporting lacked sophistication and transparency. It was ad-hoc, without a benchmark and missing fee and trading cost information.

A common thread contributing to the client's issues was the local broker's shortage of resources, scale and foundation-specific expertise.

THE SOLUTION

We determined that our Outsourced Chief Investment Officer (OCIO) offering was a good fit for the client, who lacked the time and resources to manage the portfolios itself. Our approach with this solution, as always, was to provide the client with the same level of customization and service that an in-house team would afford.

The first step we took was to develop an asset transfer plan. Importantly, we kept the client invested during this phase. We typically follow this approach whenever plausible and in the best interest of the client.

Next, we collaborated with the client's investment committee to develop a formal investment policy statement. This step is crucial: The policy statement informs every aspect of the portfolio. Because of its importance, we focused on building consensus across committee members when developing the policy.

Once we had a formal investment policy statement, we worked with the client to find asset allocation targets that fit within their risk budget and considered its spending needs. From there, we used Ellwood's liquid OCIO model portfolio, which leverages Ellwood's best thinking on asset allocation, tactical shifts and manager selection.

THE OUTCOME

Our custom OCIO solution resulted in the following three main benefits for the foundation:

Optimized portfolio characteristics

Our investment policy process allowed us to better flesh out the client's risk tolerance and fine-tune asset allocation. This led to greater global diversification as well as better diversification within U.S. holdings. Further, because we are able to aggregate client assets and leverage our relationships with investment managers, the client was able to access certain strategies that might otherwise be closed to new investors.

Improved reporting and transparency

We streamlined and enhanced client reporting. This included standardizing its format, including benchmarks and making investment costs more transparent. The client now has a clear understanding of portfolio positioning, net-of-fees performance and portfolio risk.

Cost savings and efficiencies

We transitioned the client from mainly individual securities to our OCIO liquid model portfolio consisting of active and passive mutual funds. This resulted in a significant fee reduction. We also helped the client allocate its time more efficiently, as improved reporting and other investment-related activities allowed the investment committee to redirect its time and resources toward other productive initiatives.

Ultimately, we better positioned the client to grow its assets and meet its spending needs. Further, the client gained access to the scale and resources of a larger institutional investment service without compromising the close attention and collaboration provided by an in-house team or local broker. **E**



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About Ellwood

For four decades, Ellwood has customized investment programs that are practical, grounded in fundamental research, and focused on bottom-line performance. Our consulting practice is national in scope and is focused on serving seven primary practice areas: Endowments and Foundations, Healthcare Systems and Hospitals, Corporate Defined Benefit Plans, Corporate Defined Contribution Plans, Public Funds, High-Net-Worth Clients, and Wealth Management Advisory Services.

Ellwood was founded in 1977 and is a 100% employee-owned, independent investment consulting firm with no parent or affiliate organizations. Ellwood is based in Chicago, IL with a regional office in the Denver, CO area.

Outsourced Chief Investment Officer Consulting

The OCIO solution is appropriate for institutions or committees that understand their unique circumstances but lack the investment experience or time to manage their portfolio. Our experienced team of consultants strives to understand the client's perspective and has the research background to understand each asset class and its unique characteristics.



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