4 Questions Foundations Should Ask When Evaluating an Investment Advisor

By Sara B. Bernard and Harry S. Grand

In the years following the financial crisis, endowment and foundation returns have benefited from strong equity market returns. However, as we now enter an environment where high returns are increasingly challenging to achieve on a risk parity basis, many foundations and endowments are taking the time to reevaluate the drivers of past performance and analyze the most intelligent means to maintain returns. It is incumbent upon the governing bodies of these organizations to implement best practices in effective management of investment portfolios, and to abide by their fiduciary obligation to prudently manage investment assets. As they look to evaluate their investments and/or reevaluate their investment advisors, we believe it is important for board and trustee members to focus on the following four questions, which we hope will lead decision makers to a deeper and more useful understanding of their own objectives and needs, and ensure that they are partnering with the right investment advisory firm for their organization.

1. Will the investment advisor comply with prudent investing regulations?

The investment of private foundation and public charity investment assets are regulated by their organizational documents, by state statutes governing charities in the state of their formation, and by federal tax law. While state statutes vary considerably, many of them, including New York, Delaware and Florida, are modeled on the Uniform Prudent Management of Institutional Funds Act. Each organization's governing body has a duty to manage investment assets whether directly or with the assistance of experts and professionals in compliance with their organizational documents, such as trust and endowment agreements, and relevant state and federal statutes.

At Chilton Trust, we act as stewards of foundation investments, ensuring that we act with the utmost prudence to preserve foundation resources for their intended charitable purposes. In fact, we manage all of our clients' portfolios with a customized review of the relevant fiduciary investment standards, with the goal of insuring compliance with the board or trustees' legal duty, safeguarding and shepherding the funds for generations.

The Chilton Trust team has deep-seated experience in working with not-for-profit organizations to fulfill the mandate of prudent investing. We begin by reviewing relevant organizational documents and state statutes to identify factors that an organization must consider in making management and investment decisions. In consideration and in compliance with The Uniform Prudent Management of Institutional Funds Act (see side panel), we generally follow a five-step process to create a customized investment advisory offering for our clients. We 1) identify issues and objectives, 2) gather and organize information, 3) provide comprehensive evaluation and recommendations, 4) fine tune a strategic plan and asset allocation, and 5) implement the plan, all of which includes ongoing dialogue and feedback from the organization throughout this process.

The Uniform Prudent Management of Institutional Funds Act requires a charity and those who manage and invest its funds to:

◊ Give primary consideration to donor intent as expressed in a gift instrument;
◊ Act in good faith, with the care an ordinarily prudent person will exercise;
◊ Incur only reasonable costs in investing and managing charitable funds;
◊ Make a reasonable effort to verify relevant facts;
◊ Make decisions about each asset in the context of the portfolio of investments, as part of an overall investment strategy;
◊ Diversify investments unless due to special circumstances, the purposes of the fund are better served without diversification;
◊ Dispose of unsuitable assets; and
◊ In general, develop an investment strategy appropriate for the fund and the charity.

Source: National Conference of Commissioners of Uniform State Law

We believe organizations should take the time to go through the process of establishing an Investment Policy Statement (IPS), which puts forth their investment objectives, strategy for achieving those objectives, risk tolerance, liquidity needs, restrictions on permitted investments, and any other pertinent information regarding their asset allocation and diversification strategies and objectives. To this effect, we work together with your organization to create a customized IPS, which seeks to establish a clear understanding regarding the investment goals and objectives of your portfolio. An IPS will typically identify the parties who will participate in the development, implementation, management, and evaluation of your portfolio, as well as define and assign responsibilities among all involved parties who will guide and set limitations regarding the investments. The IPS will also establish the relevant investment horizon that your portfolio will be managed to/against, establish a basis for evaluating the investment results, identify prudent investor standards required by the law, and identify strategic, long-term neutral asset allocations set within a goals-based framework, while adhering to restrictions and limitations.

In general, the purpose of the IPS is to outline a philosophy and the investment parameters that will guide the management of your portfolios toward achieving your goals while complying with applicable regulatory requirements. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical and adaptable. It is a format that allows all parties to know and agree on investment parameters.

2. Will the investment advisor oversee the foundation's assets in a manner that is in line with both the organization's charitable purpose and mission and the needs of those it supports?

The board, trustees or governing body must ensure that its investment advisor understands how its current objectives are related to the mission of the organization. The governing body should make sure its investment advisor's decision process is effectively documented in an Investment Policy Statement, as previously discussed. Furthermore, it should seek investment advisors where the focus is aligned with the organization's investment and distribution strategy.

At Chilton Trust, we always consider the charitable purposes of the institution in making management and investment decisions. We seek to prudently maximize the efficiency of our clients' capital within stated risk guidelines, which helps to define and ensure that board members, trustees and/or the investment committee have an active voice in formulating the investment program. Our investment philosophy, process, portfolio construction, communication and formal quarterly reviews allow foundations to ensure that its purpose and mission is being followed throughout various market cycles. Should there be interest in exploring techniques that also fulfill the organization's charitable mission, we offer access to best in class solutions including impact or environmental, social and governance (ESG) managers.

3. Will the investment advisor comply with legal and ethical standards and are there any competing or conflicting interests?

It is the board, trustees or governing body of an organization's responsibility to ensure that its investment advisor does not have any conflicts of interest, is independent, and has aligned incentives in place to always act in the best interests of the organization. Evolving regulations have created an environment that require greater standardization in oversight, governance and operations. As such, foundations and endowments must adopt procedures to ensure that any conflicts of interest are appropriately addressed, whether it pertains to the investment advisor or to members of the organization's board, trustees, staff, or investment committee.

Chilton Trust was founded on the principles of service, expertise, and integrity. As a private and independent company owned exclusively by senior employees, we are able to make decisions and set goals that place our clients' interests ahead of all other considerations. We are not registered as a broker dealer and are not affiliated with broker dealer entities, and therefore earn no commissions or placement fees for products, transactions or manager mandates. Additionally, Chilton Trust and its affiliates have no conflicting ties to the investment banking or insurance industries. In contrast to organizations with multiple business lines and products, Chilton's deliberate commitment to only one purpose – investing and managing our clients' assets – allows us to fully commit our resources and channel our expertise for the sole benefit of our investment advisory clients.

4. Will the investment advisor focus on risk management and oversight?

Risk management is a fundamental concern for non-profit organizations seeking long-term investment returns. Ultimately, it is the governing body's responsibility and duty to monitor its investment advisor and ensure that its objectives are carried out appropriately; however, your investment advisor is responsible for ensuring a reduction in fiduciary liability risk. In managing your organization's assets, Chilton Trust focuses on the organization's perspective and needs, seeks a proper allocation of risk across pools of capital with varied objectives, and most importantly, understands that capital preservation is paramount.

Ensuring a foundation's operational existence is our first consideration when constructing the portfolio. As a secondary goal, we seek growth with the appropriate amount of risk in accordance with the Investment Policy Statement. We strive to achieve growth through a variety of strategies and asset classes, which are executed through a combination of internal Chilton sources and Chilton-selected external investment managers.

We believe that each foundation and endowment we advise should engage in and continue to revisit a forward-looking planning exercise, during which we regularly discuss information about likely inflows and outflows of capital in the future. Once we understand the predicted nature of cash flows, we can provide an analysis to help decision makers for the foundation or endowment understand the range of investment choices they face.

We endeavor to allocate risk in proper proportion to the time frame of client goals. This goals-based approach is designed to build durable portfolios intended to withstand both time and market volatility. Assets with higher expected returns and higher tolerance for potential volatility are appropriately associated with longer-term client objectives.

We also understand the critical role that timely, accurate and accessible reporting plays in maintaining trust, transparency and oversight of risk management for a foundation. Using our experience and insight, we utilize a comprehensive and customizable reporting capability application to meet these needs. Our reporting software offers a tremendous number of functions and reporting options from which to choose, including periodic and on-demand reporting that lets us define and run exactly the report a foundation needs.

Conclusion

At Chilton Trust, our greatest responsibility is the preservation of capital and to help fiduciaries fulfill their responsibilities. As a truly independent firm, we partner with endowments, foundations, institutions, high net-worth clients and family offices to provide bespoke, dynamic solutions to unique and complex needs. We believe it is our duty to not simply assist clients in reaching their financial goals but also to guide them in identifying and understanding the necessary steps to reach these goals. We understand our responsibility as an advocate and caretaker for your organization.

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Chilton Trust Company (together with Chilton Investment Services, its SEC-registered investment advisory affiliate, "Chilton Trust") is a private, independent trust company to advise and provide wealth management, fiduciary and investment solutions to high net-worth individuals, families, trusts, foundations, endowments and other institutions. Chilton Trust was founded on the principles of service, expertise, trust and integrity. Chilton Trust offers full-service, bespoke investment management, open architecture advisory services, tailored asset allocation advice, family office, tax advisory and fiduciary services.

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