

ENDOWMENTS AND FOUNDATIONS CONSULTING

Opportunity for Advisors in the Foundations and Endowments Market

By Scott Thayer, CIMA®

Foundations and endowments with less than \$25 million in assets under management are in dire need of prudent financial advice. According to a 2017 study from the National Association of College and University Business Officers (NACUBO), more than 800 universities have a total of \$700 billion under management. About 200 universities have assets of less than \$50 million each, all together totaling more than \$5.6 billion.¹ In addition, Foundation Center Statistics have records of 86,700 non-university foundations that support a variety of missions and all together have assets totaling more than \$860 billion.² Needless to say, the foundation and endowment marketplace is substantial. These nonprofits support multiple missions that provide a tremendous service to our society. The purpose of this article is to discuss the needs of these smaller nonprofit organizations and the opportunities they present for advisors. We are fortunate to have an economic system that provides a tax structure that allows for philanthropic contributions to support these social missions.

Most smaller nonprofits are managed by collectives of donors who are strongly motivated to contribute to the success of their nonprofit organizations. That success is directly correlated to the management and spending policies of the organizations' financial assets. But often

small nonprofits are held back by a lack of sophistication, knowledge, and financial expertise among the investment committees responsible for the management of their assets. Many smaller organizations' investment committees do not fully understand the fiduciary process required by the Uniform Prudent Management of Institutional Funds Act (UPMIFA)³ and do not have adequate investment policy statements. This lack of understanding about the fiduciary process opens the door to behavioral finance issues in decision-making and investment strategy. Herein lies the opportunity for financial advisors to assist in the management and success of these important organizations.

The marketplace of nonprofits with less than \$25 million in assets is not normally served by experienced institutional consultants.

The marketplace of nonprofits with less than \$25 million in assets is not normally served by experienced institutional consultants. Most of these smaller organizations are managed by donors or retired volunteers who have some financial management experience. Regardless, the management is part-time at best and, in most cases, not

current with prudent investment strategies. Private wealth advisors with advanced education and certifications (e.g., CIMA® or CPWA® certifications) are well-positioned to advise these organizations.

To assist in the prudent management of these organizations, an advisor must be able to provide the following:

- Assist the organization in developing an organizational structure that supports a separate investment committee of volunteers who have some financial background on investment matters
- A well-documented investment policy statement that outlines the fiduciary process required by UPMIFA
- A diversified investment strategy and spending policy that is sustainable to support the mission of the organization
- Depending on the amount of assets under management, an investment strategy that considers all asset classes including alternatives, a blend of active versus passive investments, socially responsible investing, environmental, social, and governance investing, and possibly impact investing
- A quarterly performance measurement system that monitors the objectives and spending policy versus various pre-established benchmarks within appropriate risk parameters

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- A collaborative or discretionary investment process that manages and communicates confidence in the management of these assets for the board of trustees and donor population contributing to these institutions

The reason this fiduciary process is so important is because one of the largest shortfalls in the management of smaller nonprofits' organizational assets is a lack of attention to behavioral finance. Most trustee boards and investment committees of smaller nonprofits do not have the necessary professional training on decision-making and fiduciary process. Human nature combined with behavioral finance issues without proper guidance is usually responsible for poor investment results.

Financial advisors who assist in the management of nonprofits can derive personal satisfaction from their service

and also help differentiate their private wealth practices in a very competitive market. Established private wealth advisors already have clients who donate, contribute, and participate on committees within these organizations. These clients can provide their advisors with introductions to these organizations.

Investments & Wealth Institute recently created a new certificate program to assist advisors in all aspects of the management, consulting, and advisory necessary for foundations and endowments. The program has been developed to educate and train advisors interested in this market. The program has been developed at an advanced level and encourages but does not require CIMA or CPWA certification.

I personally encourage all advisors with an interest in expanding their businesses and differentiating their advisory

services to look at this marketplace. I have found considerable personal satisfaction and professional opportunity through contributing to these important organizations.

Learn more about the course and register at <https://investmentsandwealth.org/efc>. ●

Scott Thayer, CIMA®, is the program director and has 35 years' experience working with institutional clients. Mr. Thayer retired from Graystone Institutional Consulting at Morgan Stanley. He is past chair of the Investments & Wealth Institute board of directors. Contact him at sgthayer52@gmail.com.

ENDNOTES

1. See <https://www.nacubo.org/News/2018/2/Final-Report-for-the-2017-NACUBO-Commonfund-Study-of-Endowments-Now-Available>.
2. Learn more at <http://data.foundationcenter.org/>.
3. See <http://www.uniformlaws.org/ActSummary.aspx?title=Prudent%20Management%20of%20Institutional%20Funds%20Act>.



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www.investmentsandwealth.org/EFC

According to the Foundation Center, there are 86,203 foundations in the United States with more than \$890 billion in assets under management.* Endowments, foundations, and other nonprofits have powerful missions, long time horizons, and distinct operational and governance models that contribute to complex decision-making. You may have the desire, but do you have the skill set necessary to work with institutional clients?

Learn advanced methods for institutional investment consulting with endowments and foundation clients with the Endowments & Foundations Consulting online course.

Online Program Fee (USD)

Members | \$1,995
Join & Learn | \$2,195

*Foundation Center, 2015, <http://data.foundationcenter.org>

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