

ENDOWMENTS 1.0

ASSOCIATION OF COLORADO
INDEPENDENT SCHOOLS

NOVEMBER 13, 2024

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An IMA Company



AGENDA

- 1 About Syntrinsic
- 2 The Case for Endowment
- 3 Getting Started
- 4 Investing the Endowment
- 5 Distributing from the Endowment
- 6 Donor Engagement



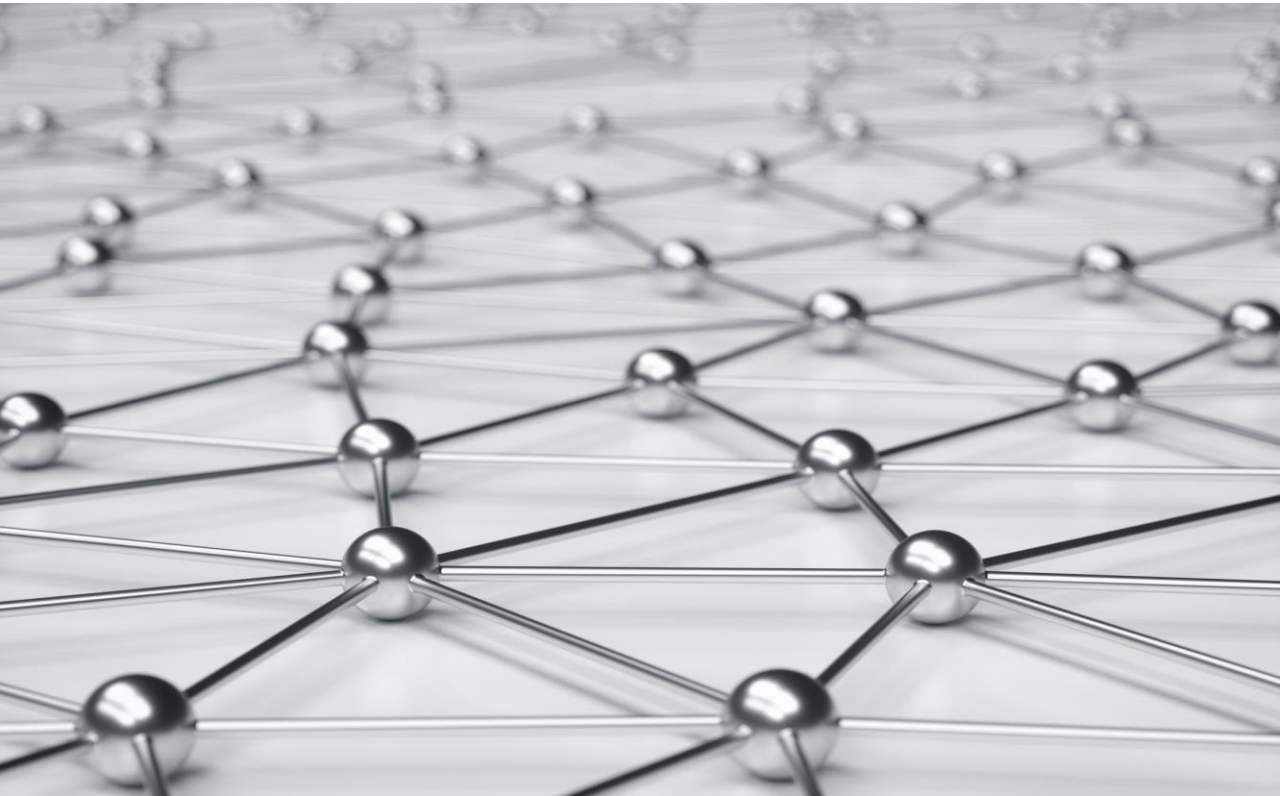


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ABOUT SYNTRINSIC

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Syntrinsic is a registered investment advisor dedicated to serving foundations, endowments, nonprofits, and the people affiliated with them.



Investment Services

- + Investment Policy Development
- + Manager Search and Selection (Traditional, Alternative, and Impact)
- + Asset Allocation Strategy
- + Values Aligned Investing

Operational Services

- + Performance Reporting
- + Third-party custodian interface
- + Trading and transfer facilitation

Strategic Consulting

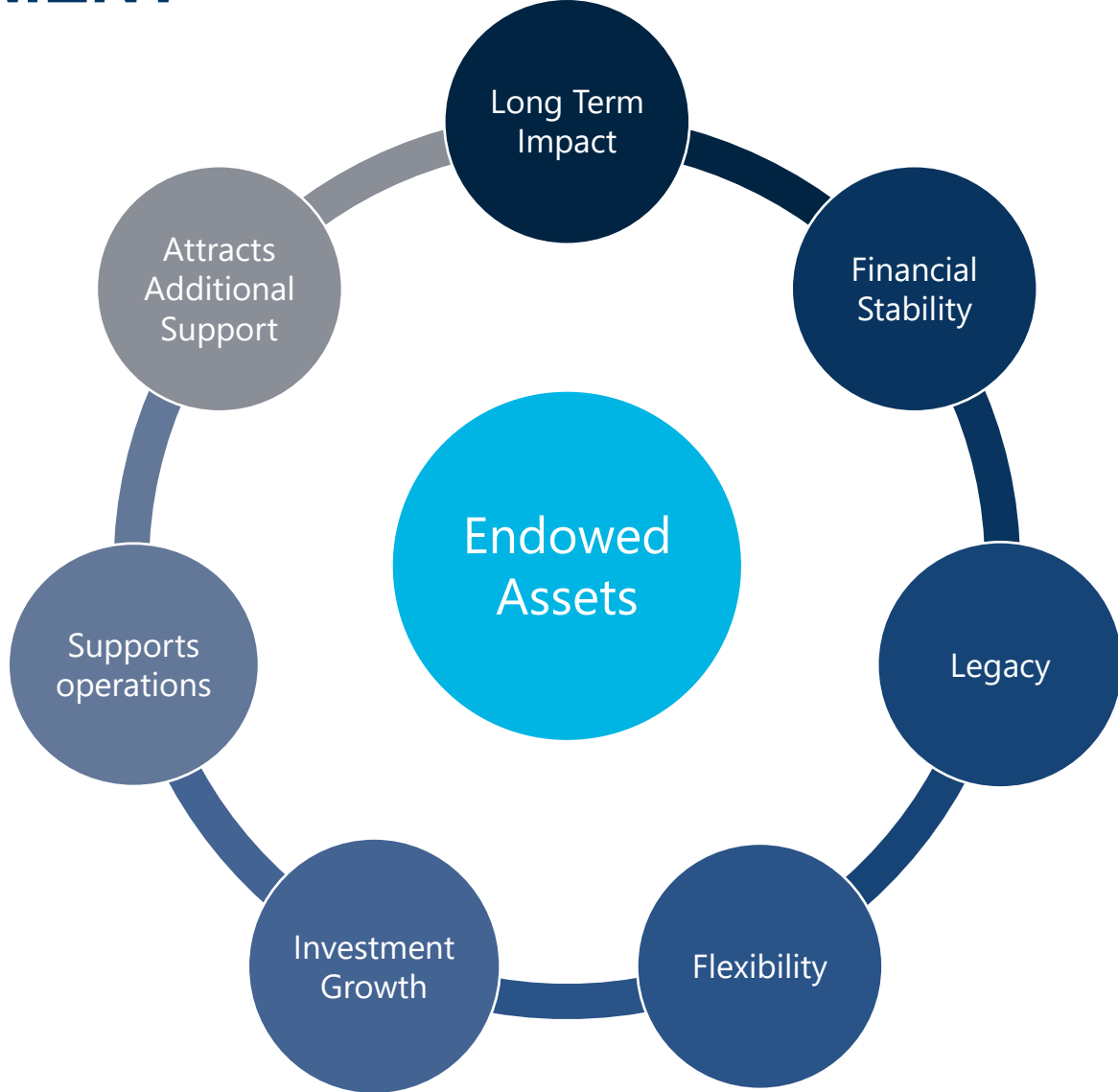
- + Nonprofit Business Strategy
- + Education (fiduciary responsibility, board governance, alternative assets)
- + Donor Engagement



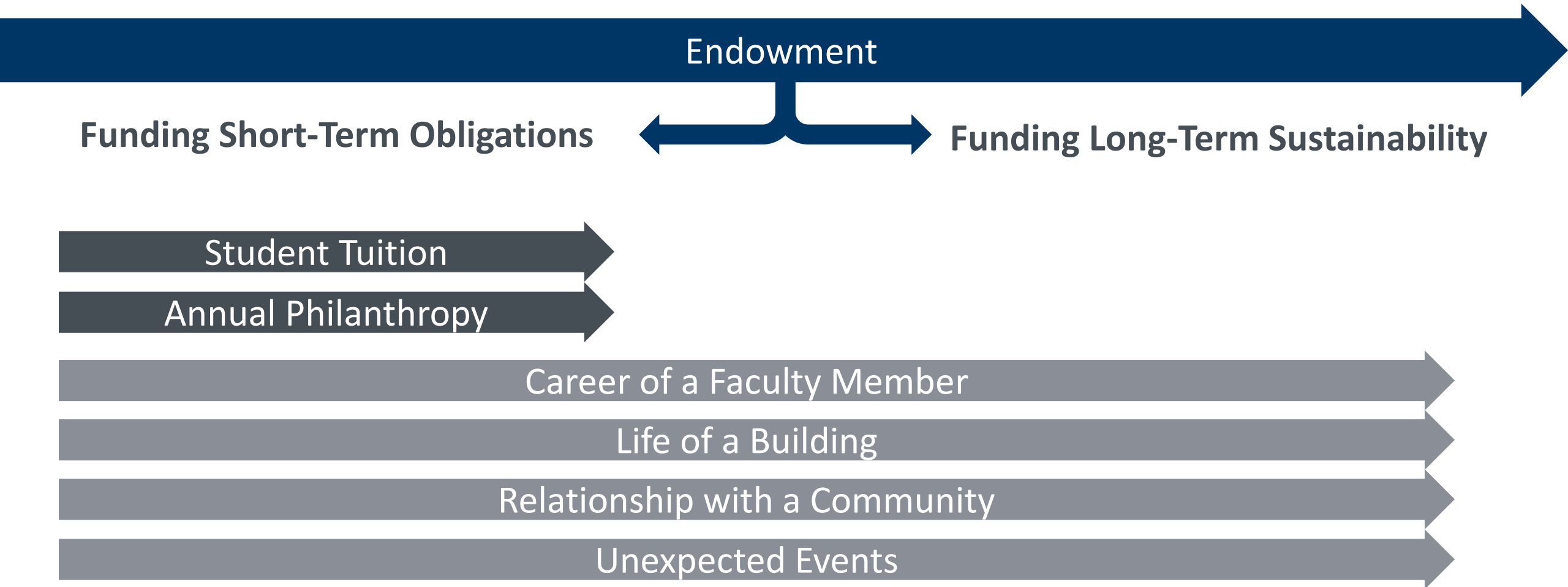
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THE CASE FOR ENDOWMENT

WHY AN ENDOWMENT



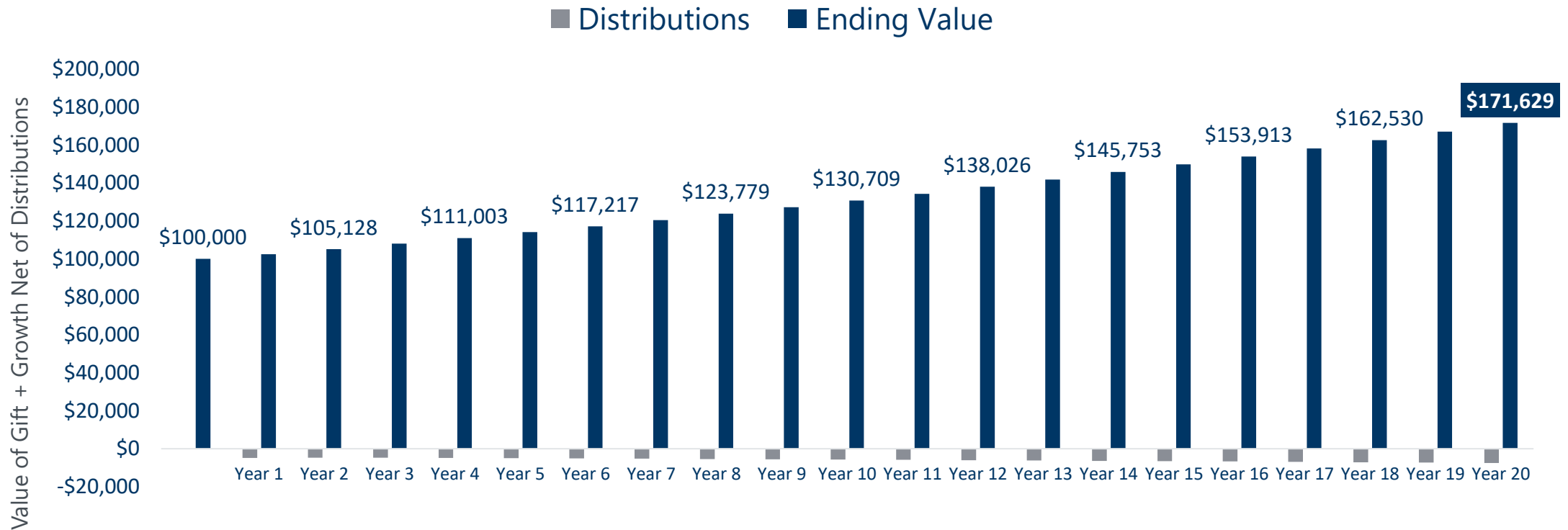
FUNDING EDUCATION



HYPOTHETICAL ILLUSTRATION

Initial Gift: \$100,000
 Investment Growth: 7.25% net of fees
 Distribution Rate: 4.5% (3yr average)

Portfolio Ending Value: \$171,629
Cumulative Distributions: \$117,693



This hypothetical scenario assumes a linear distribution of returns. Actual returns will vary. Past performance is no guarantee of future results.



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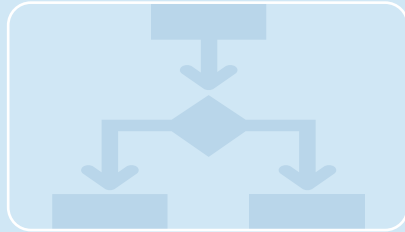
GETTING STARTED

FIDUCIARY BEST PRACTICES

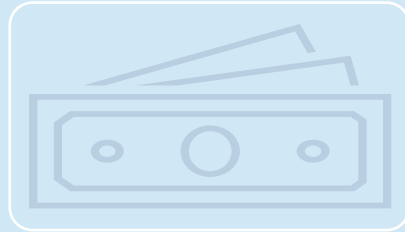
When considering an endowment, it is essential to get the basics right.



Well-defined
Investment
Policies



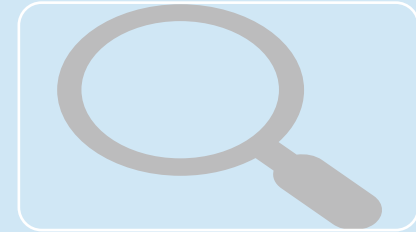
Clear
Governance
Structure and
Practices



Avoidance of
Financial
Conflicts of
Interest



Independent
and Objective
Guidance



Transparent
and
Appropriate
Fees and
Expenses

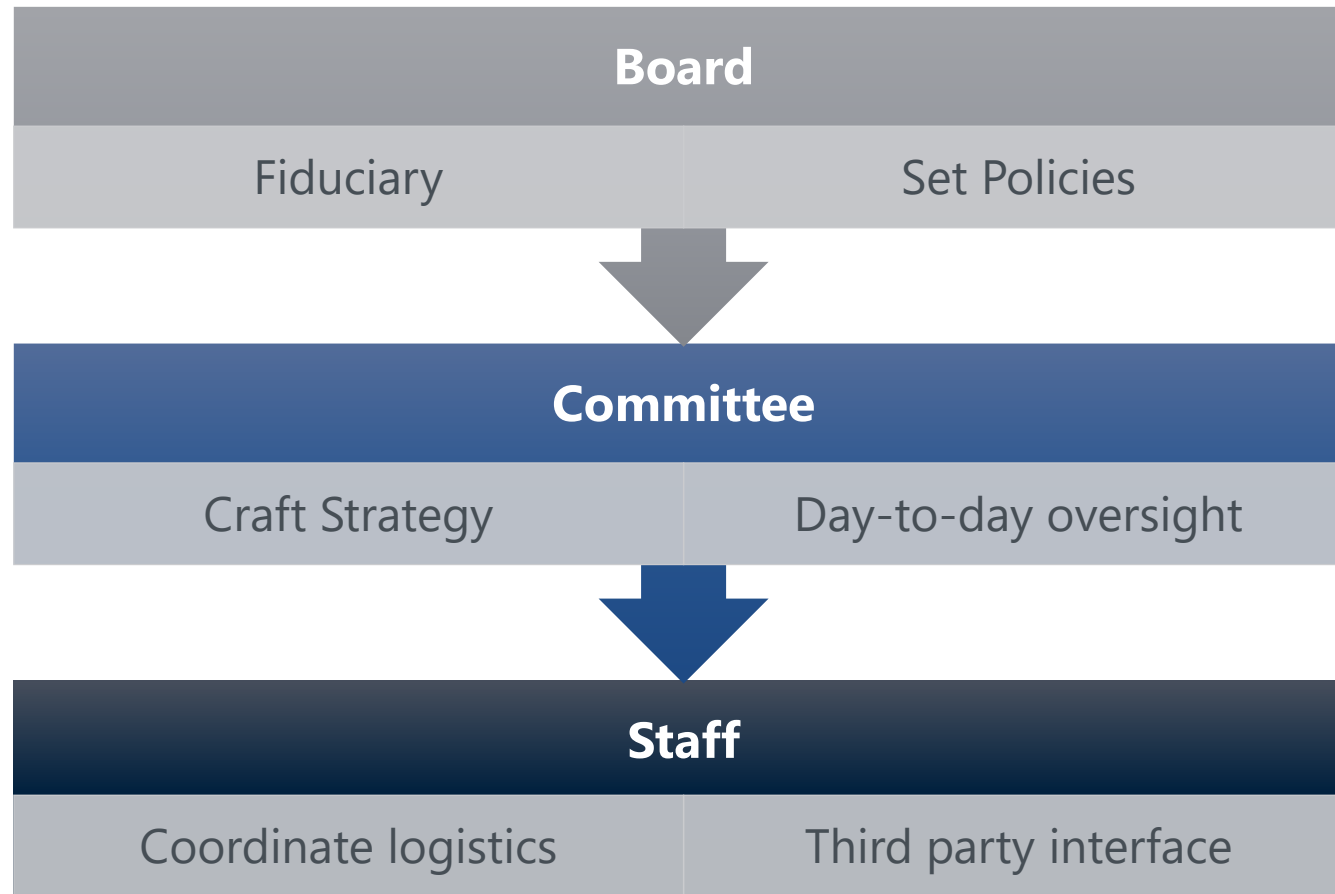
INVESTMENT POLICY STATEMENT

The Investment Policy Statement should provide guidance from the Board to any committees, staff, and/or outside advisors responsible for day-to-day management of the organization's funds. The Investment Policy belongs to the school, not to the advisor and should be drafted accordingly.

- ✓ **Purpose**
- ✓ **Roles and Responsibilities**
- ✓ **Investment Objectives**
- ✓ **Spending Policy (sometimes a separate policy)**
- ✓ **Asset Allocation**
- ✓ **Asset Class Guidelines**
- ✓ **Manager Search and Selection**
- ✓ **Review Procedures**
- ✓ **Impact Objectives**
- ✓ **Custody**

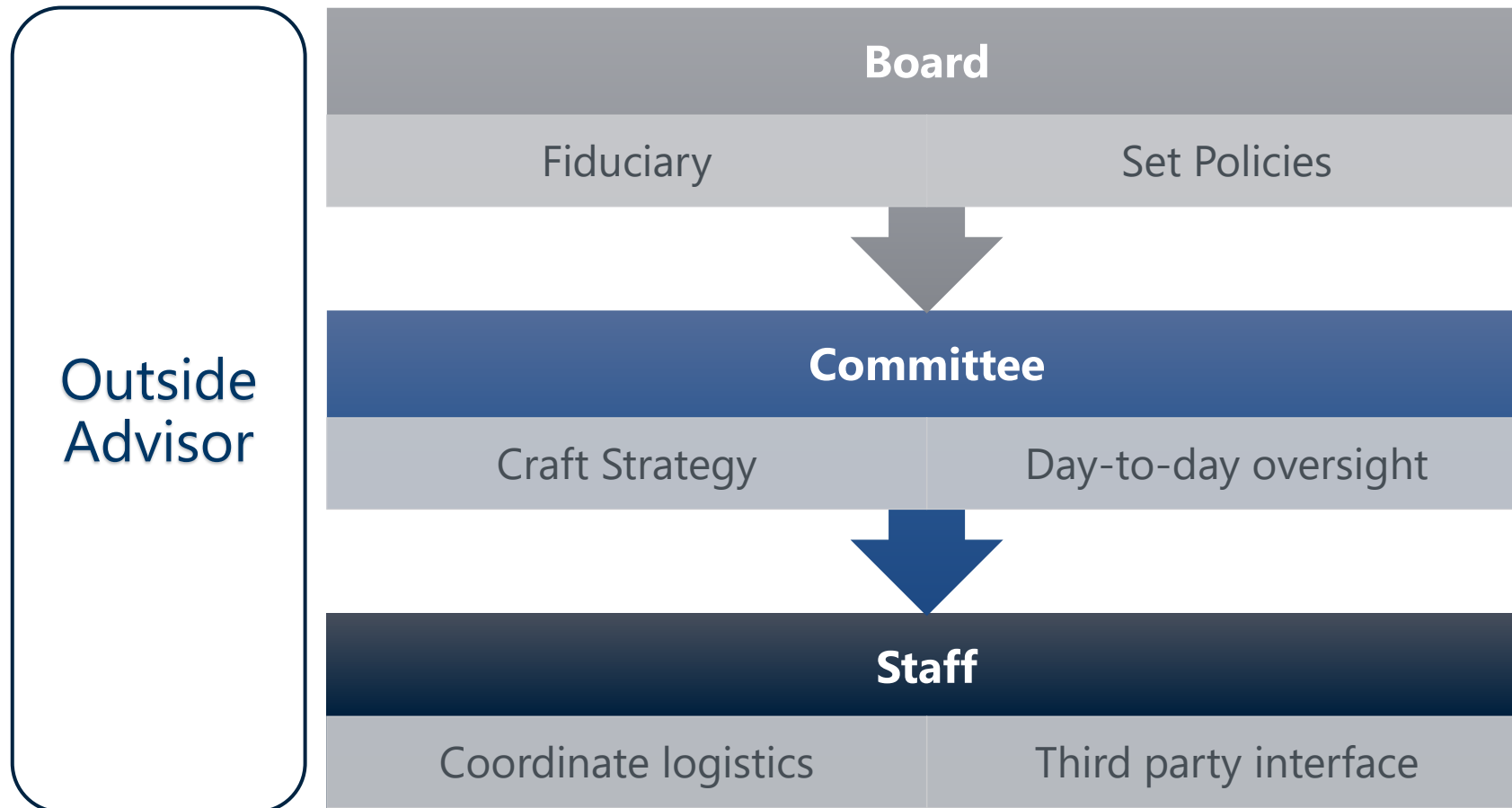
CLEAR GOVERNANCE STRUCTURE

The Board can delegate many responsibilities to other volunteers and to staff but cannot delegate its ultimate responsibility as fiduciary for financial resources.



CLEAR GOVERNANCE STRUCTURE

Most schools retain an outside advisor to support many stewardship responsibilities. Just as there are many ways to organize a governance structure, there are many ways to work with an outside advisor.



BUILDING AN INVESTMENT COMMITTEE

Whether a stand-alone committee or baked into the responsibilities of a finance committee, the strongest committees for investment oversight tend to have common characteristics.

- 5 – 10 members**
- Experience across finance-related sectors (e.g. oil/gas, real estate, private equity, wealth management)**
- Active, consistent participation**
- A consensus investment philosophy for the school**
- Shared decision-making amongst committee members**
- Strong leadership**
- Accountability mechanisms**
- Meetings at least quarterly**

CONFLICTS OF INTEREST

Avoiding financial conflicts of interest leads to more objective decision-making across the board.

We feel strongly that board members, committee members, staff, and the investment advisor (if any) should not have any financial incentives that could impact portfolio construction.

Portfolio construction can be sabotaged at many decision-points in a conflicted arrangement.

Asset allocation decisions

Choosing active versus passive investments

Using alternative investments

Selection of investment managers

Selection of custodian

Trading process

FIDUCIARY RESPONSIBILITY

Retaining an outside advisor should add value by helping fulfill many of the roles and responsibilities.

That said, due to legal and regulatory inconsistencies, the degree of fiduciary responsibility borne by an investment advisor is often unclear.

The degree of fiduciary responsibility accepted and the extent to which that responsibility has been disclaimed by the advisor should be clearly delineated in writing in any contract or agreement.

Fiduciary Responsibilities Per Investment Advisers Act of 1940



SELECTING AN ADVISOR

Many schools retain a financial professional to advise them on elements of the investment process. While there are many criteria to consider, we have found these four topics to most quickly help schools sort through their options.

Fiduciary Responsibility

- How important is it that your advisor share fiduciary responsibility with your board?

Discretionary Authority

- Which tasks—if any—do you want to delegate to your advisor?

Fees & Expenses

- What fees do you consider reasonable?
- How much transparency do you want regarding fees and expenses?

Relationship

- How engaged do you want your advisor to be in your organization?
- How engaged do you want them to be in the broader community?

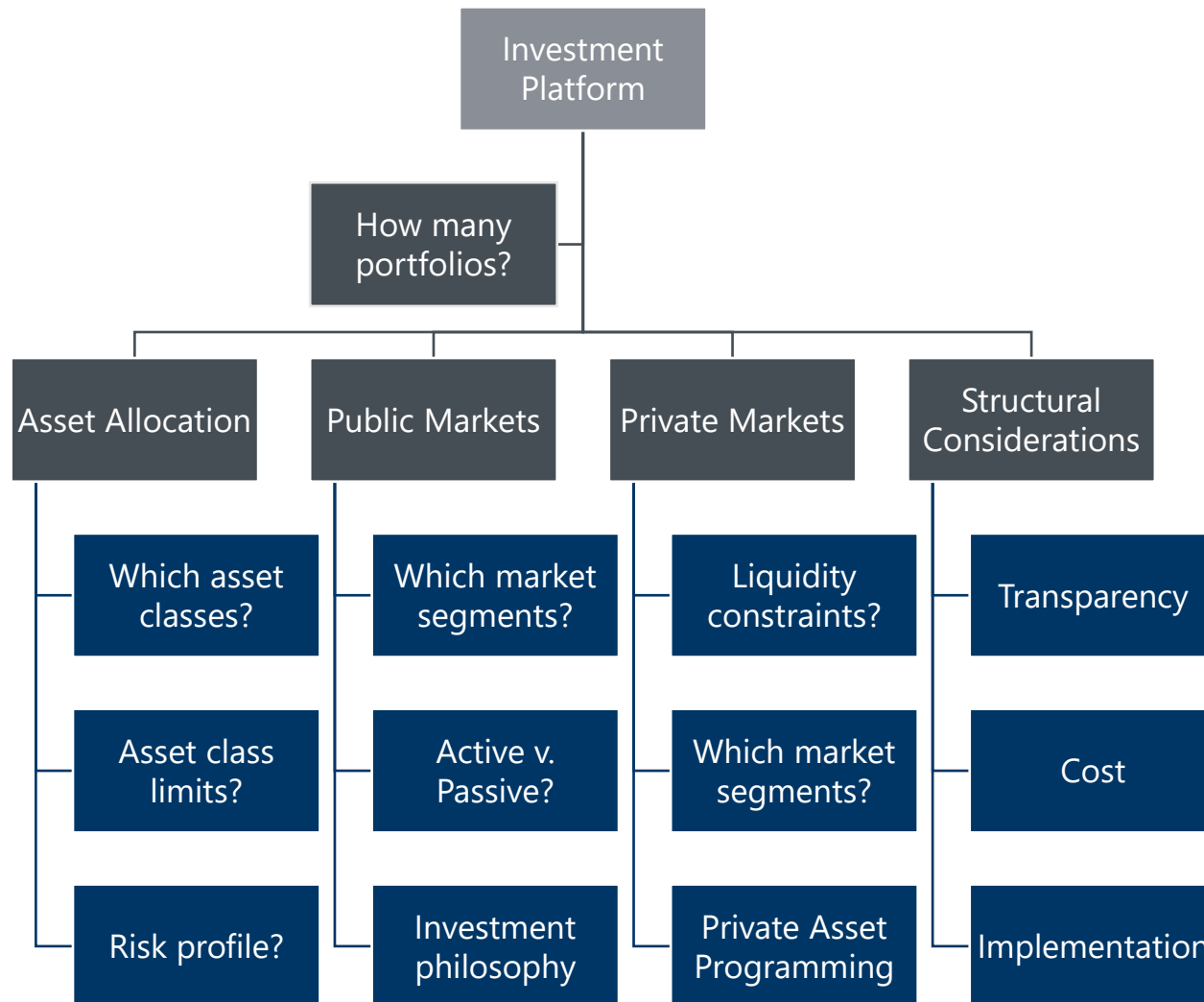
INVESTING THE ENDOWMENT

CRAFTING A STEWARDSHIP PLATFORM

Some schools combine most if not all their financial resources in a single portfolio, creating in effect a blended compromise portfolio. It can be far more effective to develop portfolios tailored to their objectives.

Sample Portfolios	Time Horizon	Liquidity	Volatility	Growth Potential
Working Capital	3-9 months	High	None	None
Near Term Reserves	< 3 years	High	Low	CPI
PPRSM*	Open	High	Varies	Varies
Long-Term Reserves	> 3 years	Moderate	Moderate	CPI + 1 - 3%
Endowment	Perpetual	Moderate	High	CPI + 4 – 5%
Restricted Funds	Donor-specific	Usually High	Moderate	Donor-specific

PORTFOLIO CONSTRUCTION



There are many ways to invest. Rather than describing one way to build an institutional portfolio, we raise the questions that each investor must address either in the Investment Policy Statement or through its culture of stewardship.

SPECTRUM OF INVESTING

Classic Investing	ESG Integration	Thematic	Exclusionary	Impact First	Philanthropy
Competitive Returns					
	ESG Risk Management				
	Sustainable Opportunities				
	Values Alignment				
Diverse Manager Overlay					
Investing without regard for Environmental, Social, and Governance (ESG) factors or personal values	Targeting investments best positioned to benefit from the integration of ESG factors and broad-based macro trends	Focus on issue areas where social or environmental needs offer commercial growth opportunities for market rate return	Consideration of values to screen out investments	Emphasis on the optimization of social or environmental needs (e.g., PRI) which may result in financial trade off	Where social and/or environmental needs outweigh any consideration for financial return

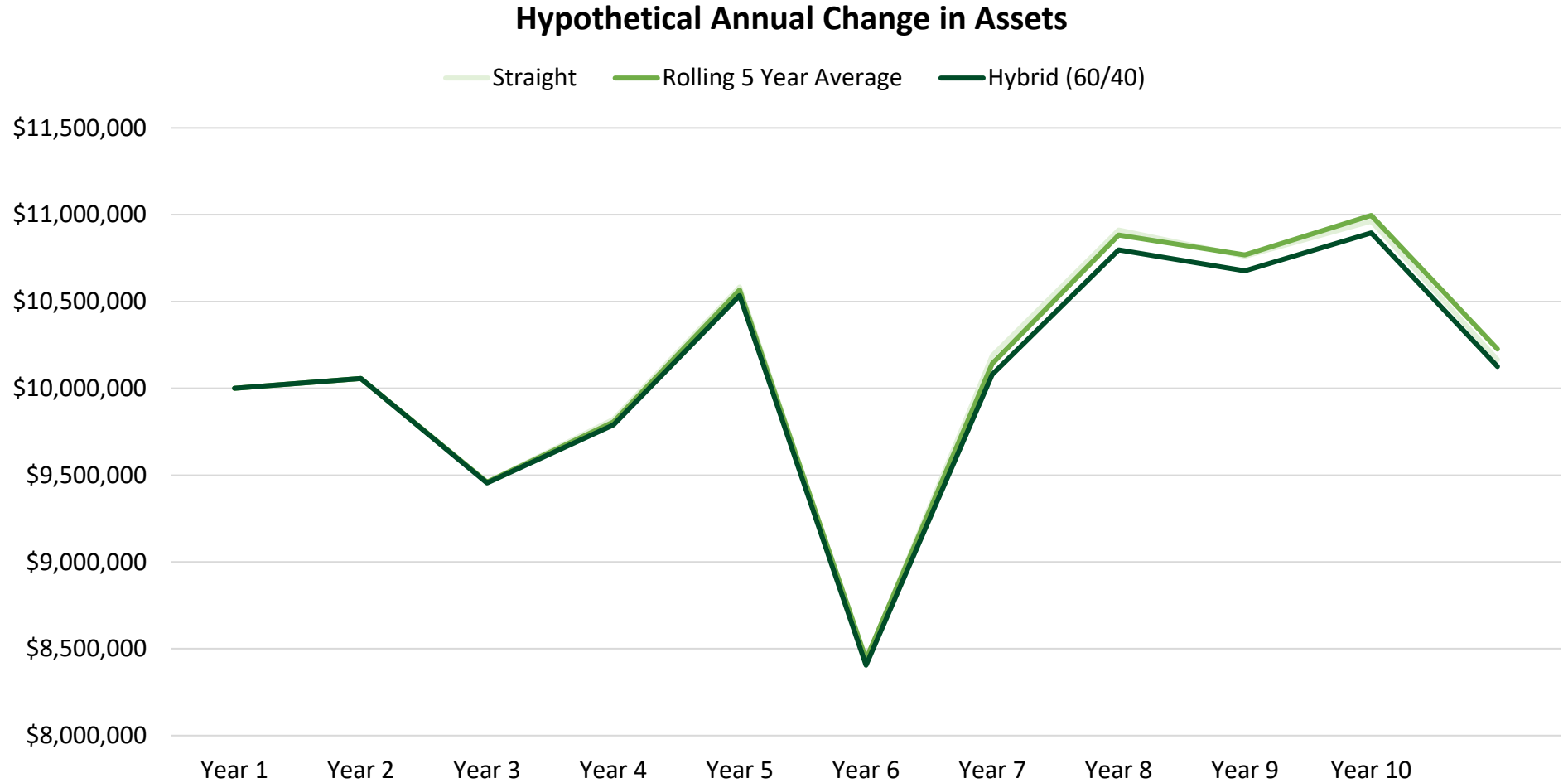
DISTRIBUTING FROM THE ENDOWMENT

SPENDING POLICY



HYPOTHETICAL VOLATILITY AFFECTS

Inception	\$10,000,000
Spend Rate	4%
Inflation	2%
Time	Net Return
Year 1	7%
Year 2	-3%
Year 3	12%
Year 4	18%
Year 5	-25%
Year 6	38%
Year 7	17%
Year 8	4%
Year 9	9%
Year 10	-5%
Annualized	6.0%



COMMON CALCULATORS

Spending policy determines how a school distributes monies from its endowment. When developing such a policy, schools should consider at least the impact of inflation, desire for stability and predictability, opportunity for growth, time horizon, and investment uncertainty.

Straight Calculation



- Use the end of fiscal year value
- Multiply by a fixed or variable %

Rolling Quarter



- Calculate average assets over 12 or 20 quarters to set base value
- Multiply by fixed or variable %

Hybrid



- Stability Portion: Last year's distribution + CPI
- Market Portion: Use rolling quarter calculation
- Determine ratio of Stability vs Market

WHICH DISTRIBUTION METHOD?

Spending Method	Total Distributions	Total Investment Gain	Ending Value
Straight	-\$4,046,860	\$4,212,485	\$10,165,626
Rolling 5 Year Average	-\$3,975,876	\$4,202,138	\$10,226,261
Hybrid (60/40)	-\$4,055,661	\$4,181,456	\$10,125,795

All these distribution methods have merit depending on what the organization is striving to accomplish. Once the organization makes a commitment to a methodology, it is important to maintain that approach over time both to honor donor intent and to effectively manage the business-to-endowment interface.

DONOR ENGAGEMENT

WHY SHOULD THEY TRUST YOU?

There are many reasons not to make a major gift. It is critical to thoughtfully address the concerns of potential donors whether they explicitly express those concerns or not.

I can manage it better myself.

They're probably paying too much.

Who's paying attention to the money anyway?

It's too risky.

What if (insert crisis) happens?

They don't distribute as much as I want them to.

It's not risky enough.

They know about education. What do they know about investing?

How do I know they will spend it wisely?

WHY THEY SHOULD TRUST YOU

Just as you tell your story in all that you do as an institution, be sure that your stewardship story is told often and told well in a manner that connects with different audiences.

Ensure Stewardship Best Practices

- Ensure that your policies and practices are worthy of donor and stakeholder confidence.

Provide Regular Access to Investment Data

- Provide reasonable transparency into your investment-related affairs to bolster confidence.

Emphasize Process + Product

- As you do with student learning, create and communicate a thoughtful process rather than focusing on performance.

Educate Stakeholders

- Develop multiple mechanisms for educating stakeholders such as presentations, letters, workshops, etc.

DISCLAIMERS

Syntrinsic LLC is an SEC registered investment adviser. A copy of Syntrinsic's current written disclosure statement discussing advisory services and fees remains available for review upon request. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment or investment strategy will be profitable. Consult your investment, tax and legal advisors before making investments. Syntrinsic does not provide tax or legal advice.

The information in this document is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. The opinions expressed in this document are the combined work of Syntrinsic's Investment Committee. Our research comes from a multitude of sources, but any opinions expressed are our own.

Given the complex nature of risk-reward trade-offs involved in portfolio construction, we advise clients to consult with financial professionals on specific investment-related decisions. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. In addition, past performance is not a guarantee of future results.

Assumptions, opinions, and estimates are provided for illustrative purposes only and are subject to significant limitations. Expected return estimates are subject to uncertainty and error. Expected returns for each asset class can be conditional on economic scenarios to which actual returns could be significantly higher or lower than forecasted. They should not be solely relied upon as recommendations to buy or sell securities.

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This material has been prepared for information purposes only and is not intended to provide, and should not be relied on for, accounting, legal, or tax advice.



About Syntrinsic

Founded in 2008, Syntrinsic is co-creating a sustainable and generative world that empowers all people by providing investment advice and strategic consulting to community foundations, private foundations, public charities, and private clients interested in using assets for good and growth. The firm offers a full suite of services, including impact investing, stakeholder education, operational support, business strategy and structure, and client-stakeholder relations.