THE REGULATORY FUNDAMENTALS GROUP LLC

RFG May, 2016 Survey of Investment Office Practices

June 10, 2016

Overview

Following RFG's analysis of responses submitted to Congress as a result of an inquiry (which covered endowment market value, number and cost of internal staff, information on external managers and effective payout rate), several members thought it might be instructive to poll RFG members on related items concerning their business operations and policies. A survey responding to these requests was sent to members in May and the results are summarized below.

The survey was only sent to RFG clients. We received information from nine endowments with AUM ranging from over $1.5B to just under $9.5B. (More specifically, one respondent had less than $2B AUM, four were between $3-6B and four were over $6B.) All of the respondents reported that their investment office is part of the endowed entity (as opposed to having a separate management company structure). Three out of seven respondents answering a question on trading reported that they manage assets internally (direct trades). For one, these trades involve treasuries; for another energy, timber, real estate and private equity; and for the third EFT/passive strategies. Each of these three endowments had AUM above $5 billion.

A word of caution about the results. Given the small poll size and the fact that the survey was the first effort of its type by RFG, we would not place too much reliance on the responses. For some questions, the responses seem inconsistent with those provided by the larger group of institutions responding to Congress. Nonetheless, even with this caveat, we found many of the responses to be quite interesting. If RFG members find the information useful, we can consider an additional (and perhaps better designed) survey at some future point in time.

The specific report follows.

Allocations and Advised Clients

Allocations to public equity as reported by eight responding organizations ranged from 22.5% to 37.5% of their total investments, with an average of 33.4%. The largest endowments responding (over $5B) averaged 32.2%, while the smaller endowments averaged 32.8%. As to investment in private markets, the eight respondents reported private equity allocations that ranged from 12.5% to 19%. The specific allocations were as follows:

1. Public Equity - 34%, Private Equity - 19%, Real Assets - 13%, Semi-Marketable (Hedge Funds) - 26%, Fixed Income - 4%, Cash - 4%.
2. Global Public Equities – 37.5%, Absolute Return – 12%, Fixed Income – 13%, Private Markets – 18.5%, Natural Resources – 16%, Cash – 3%.
3. No specific percentages given, but noted that this endowment does not invest in frontier equities.
4. A diversified mix of asset classes with a high orientation to strategies with equity-like returns.
5. Public Equity – 35%, Private Equity – 15%, Real Assets – 16%, Absolute Return – 22%, Fixed Income – 12%.
6. Public Equity - 33%, Private Equity - 16%, Hedge Funds - 23%, Fixed Income & Cash - 6%, Real Estate - 10%, Natural Resources - 12%.
7. Public Equity - 37.5%, Absolute Return - 12%, Fixed Income - 13%, Private Markets - 18.5% Natural Resources - 16%, Cash - 3% (these numbers represent the policy benchmark, not actual).
8. Global Public Equities - 22.5%, Private Equity - 12.5%, Private Debt - 5.0%, Absolute Return - 32%, Real Estate - 7.0%, Natural Resources - 8.0%, Fixed Income - 12.5%, Cash - 0.5%.

All nine respondents reported that their endowment pool only includes the assets of one entity and its subsidiaries.

Two of nine respondents advise only on the endowment assets. The others also advised other areas of their endowed organization, as follows:

Retirement and other benefit plans (6)
Operating, working capital accounts (5)
Unspent bond funds (1)
Planned giving assets (1)
Self-insurance pool (1)
Faculty mortgage assets (1)
Other temporary pools (1)

Employees and Expenses

Seven endowments responded to this section. All had between 1 and 3 administrative employees. Three had two. There did not seem to be a correlation between endowment AUM and number of administrative employees. This may relate instead to other roles placed on staff, but the questions were not designed to elicit this level of detail.

In terms of investment employees and operations/finance employees, there was a broader range. The number of investment employees ranged from 4 to 19. In AUM order (smallest to largest) the numbers were as follows: 6 ,4 ,8, 8, 9, 12, and19.

The number of operations/finance employees ranged from 2 to 11. In AUM order (smallest to largest) the numbers were as follows: 2, 2, 11, 4, 5, 9, and 6.

Expenses for full time staff ranged from $4.7M to $14M. In AUM order (smallest to largest) the numbers were as follows: 4.7M, 6.2M, 9 basis points, 5.1M, approximately 9.5M, and 14M.

As to the number of dedicated legal and compliance staff, Questions 7 and 8, only two endowments reported having dedicated staff. One had one dedicated person and the other reported two full-time equivalents. These endowments were in the AUM $3-6 billion range.

There was a wide range reported for outside legal/compliance expenses, ranging from $35,000 to $360,000. Interestingly, these outer limits were for endowments of similar size (both between $5B and $6B). The disparity may reflect an issue with the way the question was drafted.

Three endowments provided information about expenses in various areas as shown below.

Area	Low end of range	High end of range
Analytics	$580,000	$1.67M
Audit	$80,000	$690,000
Benefits	$275,000	$4.17M
Compensation	$4.35M	$14M
Compliance	$15,000	$30,000
Custodial	$220,000	$500,000
IT	$170,000	$300,000
Legal	$198,000	$400,000
Rent	$0	$445,000
Travel	$158,000	$660,000

External Investment Managers and Consultants

In response to question 11 asking for information about external investment managers, the following responses were provided (in ascending AUM order):

Managed accounts 92 (said to include "passive and liquidating accounts")
Managed accounts 4/ commingled vehicles 50
Managed accounts 5/commingled vehicles 345
Managed accounts 8/ commingled vehicles 312
Managed accounts 6/ commingled 77 managers and 240 vehicles or funds

Note: the three responding endowments with the largest AUM skipped this question.
Here again, there may have been some confusion based on the wording of the survey.

Question 12 focused on external investment management fees. The following responses were provided (in ascending AUM order, with S denoting a skipped response):

Managed Accounts:
Lowest Fee: 5 bp, 20 bp, S, 5 bp (short-term treasury mandate), 5 bp, 0.3%, S, S, S.
Highest Fee: 250 bp, 85 bp, S, 1%, 100 bp, 1%, S, S, S.
Estimated Average Fee: 133 bp, 70 bp, S, 50 bp, 50 bp, 0.5%, S, S, S.

Commingled Vehicles:
Lowest Fee: S, 1.25%, S, .45%, 60 bp, very small amounts (even zero) for old funds, S, S, S.
Highest Fee: S, 2.50%, S, 3%, 250 bp, 2.5%, S, S, S.
Estimated Average Fee: S, 1.10%, S, 1.2%, 116 bp, 1.2%, S, S, S.

The number of external investment consultants ranged as follows: zero (two responders), one (two responders) and three (one responder). Four endowments skipped this question. The aggregate dollar amount paid to external investment consultants ranged from $240,000 (from one of the smaller endowments – under $5B) to $760,000 (for one of the larger endowments). The lowest fee paid to an individual external investment consultant by any endowment was $53,500, while the largest was $444,000.

Trading, Conflicts and Other Policies

As to a personal trading policy, only one of the smaller institutions in terms of AUM, said it did not have a trading policy. Three of the four smaller respondents all reported having a personal trading policy and a restricted list. One also said it requires preclearance. Of the respondents with a larger AUM, two skipped the question. The others all reported having a policy, a restricted list and "other" types of restrictions. One indicated it required preclearance as well as holding and transaction reports.

In response to question 20 asking whether a unique conflict of interest policy exists for investment office staff, two responders said yes (a mid-size and a larger organization); two skipped the question and the others indicated that they did not have a unique policy. With one exception, all organizations responding to the question said that they require disclosures as conflicts arise and annually. One mid-sized organization said it did not require an annual disclosure.

Responding to question 24, five respondents reported that they do not prohibit investments in firms associated with investment committee members or trustees or their family members. One prohibits investments with Investment Committee members but trustees are permitted with the approval of the chair of the Investment Committee. This approach does not reflect statements made with respect to conflicts by the larger group responding to the recent Congressional inquiry. Most schools that provided information to Congress on their policies indicated that investments in firms or funds affiliated with a member of the Investment Committee or a director of the management company were not typically permitted, or if they were, it was with conditions (read our write-up of endowment conflicts policies here).

An outside business activity policy requiring preapproval is in place at three respondents. Four do not have such a policy.

Five respondents have a disaster plan or business continuity policy; two do not.