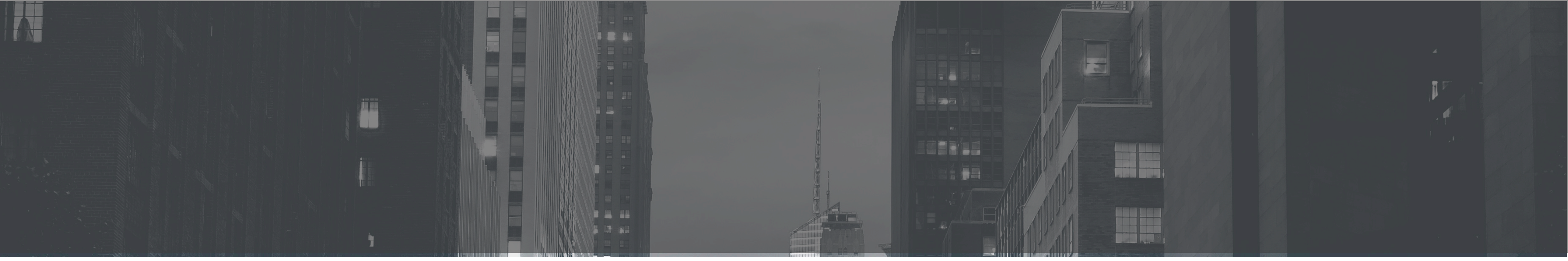

What to ask at your Foundation's Portfolio Review Meeting?

So you happen to sit on an Investment Committee at a Foundation or a nonprofit, with responsibility (Yes, fiduciary responsibility!) to understand what is happening in that portfolio and the affect it may have on your organization's effectiveness to meet their stated mandate.

What board members really want to know is what they should be asking at a portfolio review meeting in order to gain the most insights on the portfolio and its plan to meet the goals of the organization.

Let's start off with performance (although the first thing on my Agenda is always a review of the organization's specific circumstances—Has there been any meaningful changes? Anything that the advisor should know about?) for its probably the first thing on the investor's mind. The advisor should walk the Investment Committee through a well-defined process which starts with relative performance (how your performance compares with a benchmark). You are not going to want to compare your portfolio to a "full variety" of market benchmarks for that will likely muddy the waters too much—what you want to do is compare your performance to a benchmark crafted to your portfolio's holdings and style. Note: returns should always be shown net of fees and as a time weighted return calculation—adjusting for inflows and outflows of capital over the period—and of course, total returns—income plus growth.

Next we want to ask about the portfolio's asset allocation—how the assets are divided up – and the returns on each "sleeve" of the allocation matrix. Advisors should be able to break down for the committee or board the returns on each asset class –and sub asset class (i.e. large cap growth, small cap value, international fixed income, etc.). Then we want to drill down on each holding in the portfolio to see how much return is it bringing to the proverbial table. This is called attribution analysis—looking at each position and seeing where the gains and losses are coming from. This is helpful because you don't want all of your return coming from one or two positions—you would prefer to see a series of returns—shows that the advisor's process is sound and working rather than simply getting lucky.

If the advisor has passed along the management of the portfolio to a manager ("managed account") or has many mutual funds in the portfolio rather than stewarding the capital him or herself (typically more cost effective), the Investment Committee should ask about style fidelity. In other words, we invested with this manager to add diversity to the portfolio by investing in large cap value stocks and it has done well—but when we peel back the onion we find substantial positions in a large cap growth stock or a small biotech stock (far from value stocks). This should give the seasoned investor some pause for it is not what you hired the manager to do.

On the fixed income side of the portfolio we need to understand the average rating, the average duration (a measure of sensitivity to changes in interest rates) as well as the cash flow generated and the maturity (or call) schedule of the positions.

Finally, while it is not a critical concern to the tax exempt foundation or nonprofit, we want to look at tax effects of the portfolio. Tax efficiency is an important mandate and your advisor should take it seriously—so buying a mutual fund with an embedded capital gain in November is not such a good idea—keeping taxes front and center is a hallmark of a well-prepared advisor.

ALINE WEALTH