TIFF INSIGHTS

TIFF Roundtable Discussion

Non-Profit Risk & Return: A View from PENN

Philadelphia – Fall 2017

In the decade since the financial crisis, the Capital Markets have experienced strong equity returns and rising valuations across a broad range of asset classes. However, environments such as this do not continue indefinitely, so endowed non-profits must be prepared and consider risk from different angles. To help our members and the non-profit community better understand and evaluate portfolio risk, TIFF hosted a Fall 2017 roundtable featuring Peter Ammon, CIO of the PENN Office of Investments, and Craig Carnaroli, EVP of PENN, at the Wharton School in Philadelphia. TIFF CEO, Dick Flannery, joined Peter and Craig to share TIFF's views and perspectives on the topic. Pat Torrey, TIFF Head of Outreach, and Laura Kirkpatrick, TIFF Outreach Director, led this candid conversation about risk.

- Peter Ammon: CIO, University of Pennsylvania Office of Investments
- Craig Carnaroli: EVP, University of Pennsylvania
- Dick Flannery: CEO, TIFF

Highlights from the Roundtable Discussion

Many forms of risk can impact an endowment or foundation. Board and staff leaders should think broadly about risk and assess how their investment program integrates into their organizational structure. Peter defined PENN's risk as the long-term failure to maintain purchasing power after meeting spending needs, while Craig added liquidity risk (PENN's ability to fund its current financial obligations) as a major concern. Both perspectives underscore the need for a wide and holistic view of risk.

Below, we highlight several issues that non-profits should consider when thinking about risk.

Time Horizon

Endowed non-profits must maintain a long-term investment outlook and block out the "noise" of short-term performance and peer rankings. That is easier said than done, as the non-profit segment of the investment management industry is pressured by the media, Development Offices and Investment Boards to beat short-term performance metrics and achieve top-tier peer group rankings. There is also a particular fixation on quarterly results, compared to the Wilshire TUCS universe in the case of foundations, or annual NACUBO results in the case of universities. PENN, TIFF, and many other organizations find these short-term rankings to be a bit narrowly focused as short-term competitive performance pressures can distract from a long-term time horizon. To minimize the risk of short-term thinking negatively impacting an endowment, an organization should develop clear lines of communication and an understanding with all stakeholders, maintain a long-term investment time horizon, be prepared to accept volatility, and continue to commit capital across all market cycles.

Culture of Collaboration

PENN is committed to a culture of collaboration between the University's Finance Department and the Office of Investments. The PENN Office of Investments is involved and integrated with the Finance Department and the student body. This integration allows the Office of Investments to think holistically about the University's overall financial goals. Collaboration also minimizes surprises so that investment decisions are not driven by unexpected liquidity needs. Strong collaboration between finance and investment teams is a healthy practice for any well-functioning foundation or endowment.

Governance

Craig works closely with the University's Board to make sure that the Board's vision (spending policy, objectives, and risk tolerance) is reflected in the investment program. By clearly communicating with a supportive Board whose guidance is well defined, the Office of Investments has the liberty and bandwidth to make smart, nimble investment decisions, and is not hampered by dysfunctional changes in direction or surprises related to liquidity and portfolio structure.

Sources of Return

A non-profit is unlikely to survive in perpetuity if its spending comes entirely from its endowment earnings and the endowment is not properly diversified across asset classes. In today's capital markets, return sources are not always obvious. Investment offices need to identify sources of return that are not just a function of equity market beta. Identifying these differentiated return streams requires experience, research, and often includes an allocation to illiquid investments. A properly diversified portfolio can help minimize risk and help preserve the longevity of an organization and its mission.

Part of TIFF's mission is to promote within the non-profit community an understanding of investment management. Our events are offered with this goal in mind and in this spirit. Our Investment and Outreach teams are always available to speak with our members about TIFF's approach to optimizing risk. We are grateful to Peter Ammon and Craig Carnaroli for sharing their respective views at this roundtable.

About TIFF

TIFF is a mission-driven, not-for-profit organization dedicated to delivering comprehensive investment solutions to foundations, endowments, and other charitable institutions. Since its inception in 1991, TIFF has exclusively served the non-profit community by providing experienced manager selection and access, risk-sensitive asset allocation, and integrated member service to institutions with long-term investment horizons.
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