GOELZER
INVESTMENT MANAGEMENT

INSIGHTS FROM GOELZER INVESTMENT MANAGEMENT

Are Foundations Focused on the Right Questions?

What is our return relative to our Benchmark? Valid question, but not always the most important question on which to focus. Relative return measures a single aspect of success, whether the strategy's implementation has been successful. However, there are many more important questions to consider that lead institutions to better outcomes ensuring that the best strategy was developed in the first place.

The Strategic Planning process is arguably the most important determinant of a successful investment program. It also happens to be the portion of the investment process in which investors have the most control over the outcome.

Strategic Planning versus Implementation

Strategic planning is the process of defining the vision of the investment program. It mainly entails setting goals, establishing spending needs, and identifying the right asset allocation to accomplish the goals. Implementation is the act of carrying out the established strategy by investing the portfolio in line with the plan. While a lot of time and energy tends to be focused on implementation, we contend that setting the right plan is crucial. Yet for many institutions, this receives much less attention.

Implementing a portfolio without strategic planning is like building a house without taking the time to design the layout that meets your needs. How many bedrooms and bathrooms do you need, etc. In the institutional investing world, skipping ahead to the implementation (building) of your portfolio without first identifying what you need to accomplish can quite likely result in a two-bedroom ranch empty-nester portfolio when you really needed a four-bedroom two-story home with a basement for the kids. While both types of houses serve a purpose, they meet completely different needs.

Defining Goals & Objectives

Successful strategic planning begins with clearly defining objectives of what is to be accomplished with the portfolio. Often these are defined in relation to an investment return goal—"How much do we need the portfolio to earn?"—but important questions that should come before that should be in relation to carrying out the organization's mission. For example: "How are we using the proceeds from this portfolio?" "How reliant is our mission on this portfolio?" "What is the unacceptable outcome for the portfolio?" "Are these objectives realistic?"

Spending Needs

Another aspect of strategic planning is the determination of an appropriate spending rate. Balancing the tradeoff between spending today versus tomorrow, understanding the need for consistency in annual spending, and relating spending to fundraising and investment returns are key

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factors to consider. Questions here start to focus on tradeoffs and planning for the unknown. "How much growth do we need to remain relevant to our beneficiaries over time?" "Who is most reliant on our spending?" "What tolerance do we have for year over year fluctuation in support?" "What can we expect from fundraising efforts?" Here, we find that modeling different scenarios, like forecasting different inputs and economic environments can be a useful exercise for institutions to set a prudent spend rate and make plans for the future.

Other Factors

Other factors in defining the strategic plan include liquidity requirements, the time horizon of the portfolio, tolerance for risk, and asset class preferences. "What is the most we can afford to lose in the short-run?" "How much of our portfolios should be readily available for distribution?" "Are alternatives a prudent choice for inclusion?"

Asset Allocation

Thoughtful strategic planning is how investors ensure their portfolio is tailored to meet their needs. The asset allocation decision combines the "knowns" of what you are hoping to accomplish, with the "unknowns" of what the capital markets are ultimately going to provide. Again, we find that modeling multiple outcomes—from identifying what is likely to occur to what a worst-case scenario might look like—facilitates a healthy dialog and establishes realistic expectations.

"What portion of the portfolio can be exposed to growth-oriented asset classes?" "How much dispersion in expected outcomes are we willing to assume?" "Do we have appropriate exposure to areas where returns are unrelated to each other?" Answering these types of questions sets the stage for determining the most appropriate asset allocation and investment strategy.

Regular Review

The Strategic Planning process guides investors to adopt the most appropriate investment strategy given their needs. We believe that discipline in executing and following this strategy through time gives investors the best chance of accomplishing their goals. However, things may change for organizations over time, making it necessary to review and confirm this process on a regular basis. Regular review gives institutions confidence that their plan is relevant and accurate while ensuring required adjustments are made with the appropriate perspective.

Conclusion

While relative return measures can provide insight into portfolio success, they should not overshadow the importance of strategic planning. A well-designed investment program starts with a clear understanding of objectives, spending needs, risk tolerance, and asset allocation. Without this foundation, even the most skillful implementation may fall short of achieving institutional goals.

By prioritizing strategic planning, institutions gain greater control over outcomes and can ensure that their portfolio is not just performing well, but is truly aligned with their mission and long-term financial sustainability. Regular review and disciplined execution of this strategy will ultimately drive success, providing confidence that the investment approach remains relevant and effective over time.

ABOUT GOELZER: With over 50 years of experience and more than $3.5 billion in assets under advisement, Goelzer Investment Management is an investment advisory firm that leverages our proprietary investment and financial planning strategies to help successful families and institutions Dream, Invest, and Live.