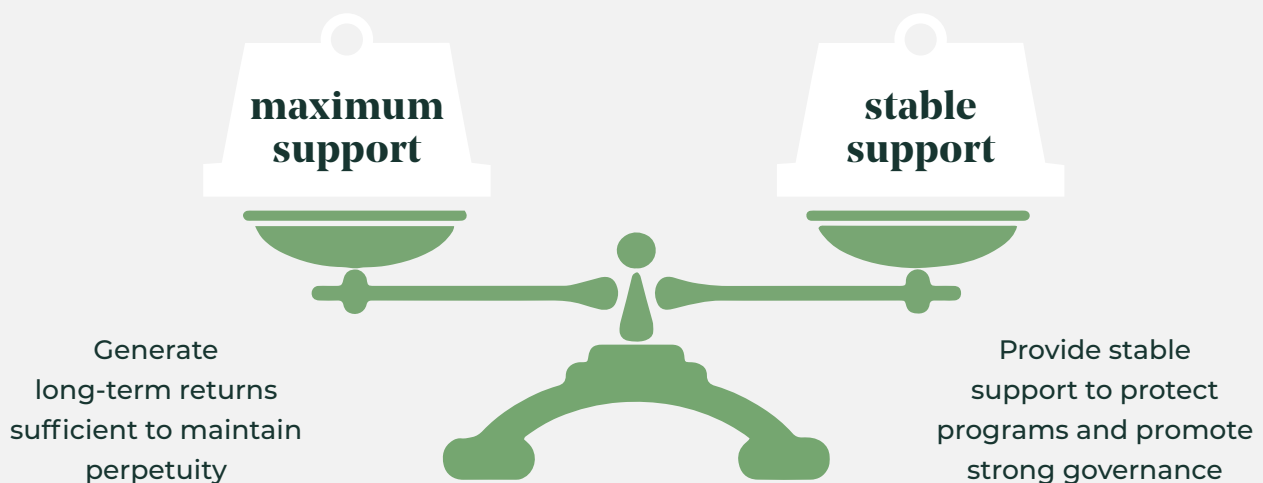


# Aligning Investment Policies with Institutional Goals

## Introduction

At GEM, we believe that every institution is unique, and that an optimized investment program must take into consideration the organization's distinct operating environment. At the highest level, this individuality is reflected within an institution's specific balance of its endowment's perpetual co-priorities: preserving the long-term purchasing power of the institution versus generating stable annual operating budget support. Within the context of these co-priorities, the steps to building an investment program involve a holistic review of the institution's strategic objectives, financial condition, and risk tolerances.

### Non-profits balance two co-priorities:



Note: For illustrative purposes only.

# GEM's Enterprise Assessment Framework

In order to fully assess an organization's operating realities and help translate key dimensions to the language of portfolio construction, GEM developed a proprietary Enterprise Assessment framework. The goal of this rigorous framework is to aid our clients in achieving alignment between institutional goals and investment policies and is grounded in an understanding of their ability to accept certain forms of portfolio risk. The Enterprise Assessment begins by reviewing the financial factors that contribute to an institution's capacity for risk or tolerance for spending variability year to year. An overview of these factors is outlined below:

## ENTERPRISE ASSESSMENT FACTORS

### 1. Budget Dependence

- a. How reliant is the institution on the endowment?
- b. How much of the organization's budget relies on distribution?
- c. What other sources of revenue exist?

### 2. Operating Performance

- a. How much cash flow is being generated?
- b. What is the operating revenue growth? Expense growth?

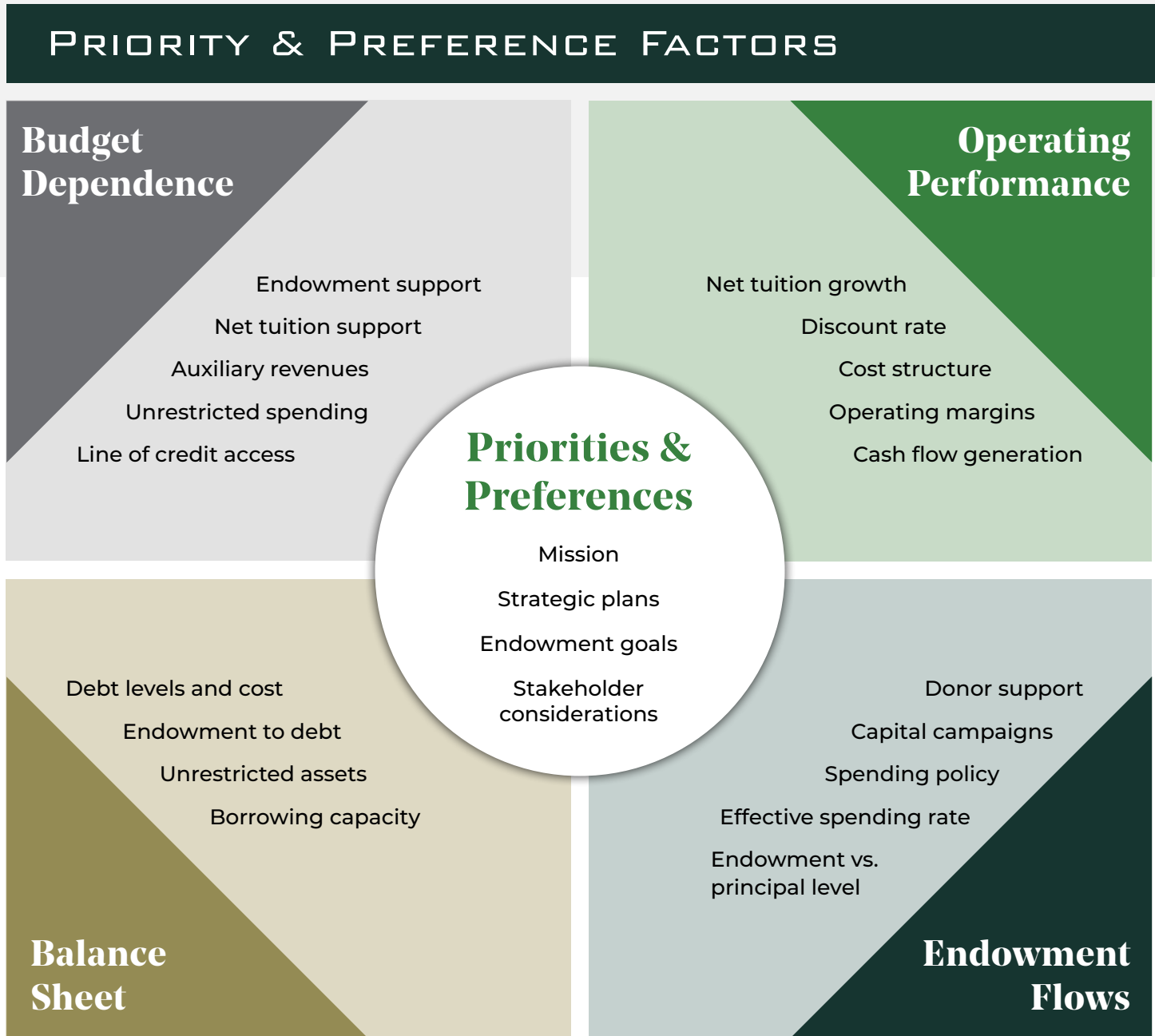
### 3. Balance Sheet

- a. What is the ratio of cash and investments to operating expenses?
- b. What is the ratio of unrestricted net assets to debt?
- c. How much access does the organization have to lines of credit?

### 4. Endowment Flows

- a. What is historical and projected donor support?
- b. What is the current spending policy and effective spending rate?
- c. Are there planned capital campaigns?

We then overlay this ability to take risk with the organization’s willingness, dictated by institutional mission, strategic objectives, and key stakeholder preferences. We partner with each institution to evaluate these inputs, and then stack rank each factor by assigning an importance grade from 1-5. No individual factor is alone sufficient in telling an institution’s unique story; thus, GEM looks at the balance of factors to recommend a tailored portfolio for the institution. These combined findings present a picture of an institution’s financial flexibility and provide us with a roadmap for balancing growth with stability.



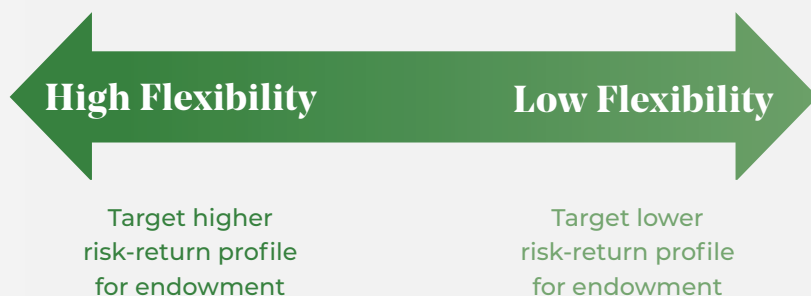
Note: For illustrative purposes only.

## Mapping Assessment to Action

Learnings from the Enterprise Assessment are used to develop an investment policy and portfolio that are tailored to the specific needs of the organization. We partner with the institution's fiduciaries to determine appropriate investment guidelines that seek to meet their risk and return objectives, liquidity requirements, and any mission alignment goals. We then blend the implementation of these dimensions into a portfolio that leverages our asset class building blocks to provide exposure to our team's best ideas.

Institutions with less capacity or desire for risk often require substantial, stable endowment support best achieved through a risk-controlled investment strategy that will dampen intermediate-term spending volatility. At the other end of the spectrum, organizations with limited spending needs from the endowment or a preference to prioritize growth may accept higher market risk in pursuit of an investment policy designed to achieve higher long-term returns that will maintain—or even grow—endowment purchasing power.

### RISK SPECTRUM



Once the portfolio recommendation is agreed to by all parties, GEM works with the institution to codify the endowment risk-return profile into an Investment Policy Statement. In our experience, a well-functioning Investment Policy Statement is a highly customized document that is meant to establish governance and behavioral norms, serve as a guide for investment advisors and other stakeholders and structure a review cadence that supports the Committee's holistic understanding of their portfolio over an appropriate time horizon. We also use inputs from the Enterprise Assessment to offer guidance on spending policy. The spending policy establishes the portion of its assets that the institution will seek to draw each year to fund operations and serves as a critical link between portfolio construction and operating needs.

## Conclusion

No two institutions are the exactly the same, and thus there is no universally optimal portfolio construction. The right investment policies and portfolios are the ones that marry an organization's specific operating realities, risk tolerances, institutional needs, and strategic initiatives. GEM's Enterprise Assessment framework provides key insights that allow us to partner with the institutions we serve, creating customized portfolios designed to help them fulfill their missions and achieve their long-term goals.

## ABOUT GEM

GEM is a leading provider of institutional investment solutions for endowments, foundations, sovereigns, families, and other long-term investors. Since 2007, GEM has specialized in delivering the highest quality service and support to our clients, enabling them to achieve their long-term investment goals. With a global reach, broad investment capabilities, and an experienced team, GEM strategically tailors solutions to meet the unique needs of each investor we serve. For more information, visit [www.geminvestments.com](http://www.geminvestments.com).



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