While every nonprofit is unique, a common thread across all organizations is the need to realize competitive performance of their endowed funds. Today many nonprofits use some form of professional advice to ensure they are invested appropriately over time. Advice can range from basic, such as the embedded advice in a multi-asset vehicle, to "white glove", where the advisor/consultant/OCIO[1] is building a bespoke portfolio.

A notable challenge that asset owners face is understanding whether the advice they are receiving is worth the fees they are paying. Of course, most advisors provide performance benchmarks for each strategy as well as for the rolled-up portfolio. In addition, most can and do provide performance attribution to help their clients understand the sources of out and under performance vs their benchmarks. But how do those same asset owners know whether their performance is "good"? Measuring the "goodness" of performance has been an uphill battle for years.

One tool that asset owners could utilize is an index. One example is the Alpha/NASDAQ OCIO indexes which represent peer groups of organizations with similar risk profiles. As of Q3 2023 (the latest reported performance), performance for a few of the cohorts was reported as:

		1-year	3-year	5-year	7-year	10-year
Aggressive	>80% in return seeking assets	13.79	6.17	6.03	NA*	NA*
Moderately Aggressive	70%-80% in return seeking assets	11.34	5.36	5.55	6.85	6.37
Moderate	50%-70% in return seeking assets	10.94	2.94	4.14	5.48	5.58

*Not enough observations.

Past performance is not indicative of future results. Please see end disclosures.

Source: NASDAQ.com

Using these indexes, an investment committee can see how (at a high level), their returns compared with the returns of other asset owners receiving advice from other OCIOs. This is one tool to understand the value of the advice they are receiving.

However, an additional layer of consideration may be warranted - how their advised portfolio(s) performed relative to what they could do on their own with a globally diversified basket of market benchmarks[2]. Why? Very simply, index funds that are designed to replicate those market benchmarks can be invested in for minimal fees. They are liquid, transparent, accessible, and low cost. The primary reason for utilizing higher cost active management and illiquid alternatives is to outperform these benchmarks and the index funds that track them. For asset owners, understanding how your portfolio of investments fits and works together vs balanced, diversified global benchmark is critical to ascertaining value added.

To help shed light on the importance of this approach below are blended market indexes. As of Q3 2023:

	Return Seeking / Diversifying	1-year	3-year	5-year	7-year	10-year
Aggressive	80/20*	17.13	5.21	6.11	7.93	7.67
Moderately Aggressive	70/30*	15.40	3.95	5.53	7.08	7.03
Moderate	60/40*	13.69	2.68	4.92	6.21	6.38

*Return seeking assets for each allocation represented by 70% Russell 3000 and 30% MSCI AC World Ex US Net. Diversifying assets represented by Bloomberg Barclays US Investment Grade Credit Index. Past performance is not indicative of future results. Please see end disclosures.

[1] OCIO – Outsourced Chief Investment Office

[2] Note that unique objectives such as mission or values aligned objectives will necessarily look different from market benchmarks and as such, performance may not be the best gauge of success.

While the 3-year numbers favor advised portfolios, 1-, 5-, and 10-year numbers favor the unmanaged market benchmarks. By this simple comparison then, there are a significant number of asset owners who are likely paying fees to their OCIO and receiving performance on par with or worse than they could achieve on their own. These asset owners should ask themselves what exactly they are receiving for the advisory fees they are paying and whether the "extra" services are worth performance that is not remarkably different from broad market benchmarks.

Given this it may be worthwhile to request of your OCIO a performance comparison that is more comprehensive than custom, hand-picked benchmarks. Only then can the board/committee decide whether they are happy with the value they receive for the fees they pay.

Past performance is not indicative of future results. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and cannot be invested in directly. Current performance data may be higher or lower than actual data quoted. Performance for periods greater than 1 year is annualized. This document was prepared without regard to the specific objectives, financial situation, or needs of any particular person or entity who may receive it. This analysis is for informational purposes only and is not intended to be an offer, solicitation, or recommendation with respect to the purchase or sale of any security, nor a recommendation of services supplied by any investment organization and does not include all factors that should be considered when choosing an investment advisor or strategy. This presentation is not investment, legal, tax, or accounting advice. Investors should consult with their own professional advisors for advice on any investment, legal, tax, or accounting issue(s). While the information contained herein highlights important data, it does not purport to highlight all dimensions of risk. The information provided herein is based on matters as they exist as of the date of preparation, or otherwise indicated throughout the presentation, and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after the date hereof. No representations are made as to the accuracy or completeness of the information set forth in these materials. LCG reserves the right at any time and without notice to change, amend, or cease publishing the information. If this data is reproduced, in whole or in part, in any form, the following reference language must be utilized "Source Information: Compiled By: LCG Associates, Inc.; Bloomberg." LCG has not received any compensation related to the collection or distribution of this data.

The Alpha Nasdaq OCIO indices are based on anonymized account-level return streams, asset allocation and metadata reported directly by OCIO firms. The Alpha Nasdaq OCIO indices use this anonymously reported data to construct a family of indices that represent the broad OCIO market along with variations of the OCIO market to more appropriately reflect the nuances across sub-categories, such as plan type and risk profile. Each of the AlphaNasdaq OCIO indices are calculated using the average net of fees return, as reported by each OCIO, for all the constituents within a given index. All constituents are equally weighted in each respective index. A minimum of 15 accounts are required to create a sub-category of the Alpha Nasdaq OCIO Broad Market index. To be included in any of the Alpha Nasdaq OCIO indices, account size must be $50m or greater, must be fully discretionary, represent a US-based client, and the performance must be live client performance net of all fees. Defined Contribution accounts are excluded. Accounts already included in the index that fall below $50m due to market activity are granted a 10% allowance below the $50m threshold to remain in the index.

The Russell 3000® Index measures the performance of the largest 3,000 US companies representing approximately 96% of the investable US equity market, as of the most recent reconstitution. The Russell 3000 Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are included.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries*. With 2,311 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

Indices referenced are unmanaged and cannot be invested in directly. Index returns do not reflect any investment management fees or transaction expenses.

All data is as of September 30, 2023 unless otherwise noted.