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## Selecting an Investment Advisor

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Choosing an investment advisor for an endowment portfolio can be a daunting task for many organizations. Some boards may feel that they lack the investment expertise to begin the process. Others may score high on the financial acumen scale but can't agree on a strategy that makes sense or have a difficult time prioritizing this activity. Whatever the reason, here are some suggestions that can help your board get unstuck and proceed with the rewarding experience of properly managing an investment portfolio.

### Develop an Investment Policy Statement

Managing an investment portfolio means coming to some agreement about risk and responsibilities. The best way to do this is to create a document called an investment policy statement (IPS). Contrary to popular belief, the IPS does not need to be a 20-page manifesto. It can be as simple as one page, but it should accomplish three specific things: (1) Identify your framework for risk, (2) define a spending policy, and (3) state your expectations for the advisor including requirements for performance measurement and frequency of reporting. This document should then be shared with your candidates as your move forward in the process.

### Write and Distribute a Request for Proposal (RFP)

An RFP is a list of questions that you will ask several investment advisor candidates to respond to. It is helpful to receive input in the following areas: history and size of the firm and skill set of the team members, experience working with similar organizations, investment philosophy, reporting capabilities, service model and philosophy, and the total fees involved (advisory fees, fund expense ratios, trading and custody costs). With the RFP, your goal is to collect information that will help you decide whether the investment advisor understands and aligns with your organizational values and can customize a wealth management solution that meets your needs. We would recommend sending this RFP to 5-10 firms keeping in mind that it will take some time to read and evaluate each proposal. You may wish to hear from a variety of firms that offer different viewpoints and philosophies. An independent registered investment advisor will often tell a different story than a bank or broker dealer firm.



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## Interview Investment Advisors

Finally, after you have received and read the proposals, it will be time to narrow the list to no more than 5 firms to invite for an interview. To prepare for presentations, we would recommend agreeing on a minimum set of questions that you will ask of all the candidates for comparison. This will be a great opportunity to dig into the investment philosophy and service capabilities of the potential firms. For example, you will want to know whether the advisor utilizes an indexed or active investment approach. Active managers may charge higher fees, but will also attempt to demonstrate that their approach can outperform market indexes over time. Index managers feel that the market is very efficient and outperformance to an index is random and not consistently repeatable. It is helpful to have at least one active and one indexed advisor involved in the final process. To get the most out of the meetings, we would recommend that you lead the advisors in the direction you want them to go by asking questions rather than allowing them to make an open-ended presentation.

Choosing an investment advisor is a wonderful opportunity to make a valuable difference for your firm. Using these suggestions as a guide, you will be able to proceed with confidence and take positive steps to ensure the long-term success of your mission. For sample IPS or RFP templates, feel free to contact me directly.

*Scott Severs, CFA, CFP® is a principal and the Chief Investment Officer at Garde Capital, Inc. Garde Capital was founded in 2009 to provide unbiased, independent, and relevant advice to the nonprofit community. Areas of focus include IPS and spending policy design and consultation, discretionary portfolio management services, customized performance reporting, and board and investment committee education.*

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