



A FORECASTED BUDGET DECLINE: HOW AN ENDOWMENT RESPONDED

OVERVIEW

Endowments exist to sustain an institution's mission by providing direct support for short- and long-term objectives. In our capacity as our clients' Outsourced Chief Investment Officer (OCIO), Angeles recognizes that every organization has unique circumstances and faces distinct challenges. Our team works closely with clients to help them navigate through dynamic environments to ensure that near-term challenges don't compromise long-term goals.

The following case study illustrates how Angeles partnered with an independent school ("School") challenged by budgetary pressures stemming from a material increase in forecasted expenses. Our collaboration resulted in the development of new strategies and policies that should lead to better alignment between the endowment and the School's mission.

The Client:

Independent school with a \$50 million endowment.

The Problem:

Due to rising payroll and fire insurance premiums, the School forecasted a material reduction in their net cash flow by \$4M from FY19 to FY23. This erosion was expected to create difficulties in the School's ability to meet its annual programming and capital needs.

The Goal

Model the School's finances to determine the appropriate endowment spending rate and liquidity profile needed to mitigate the annual shortfall while still aligning the endowment with its mission and long-term strategic plan.

The Collaboration Process

Angeles worked closely with the School's CFO to gather preliminary data and estimates to develop a comprehensive model that projected the School's financial picture over the next 20+ years. Based on the model's projections from FY19 to FY23, Angeles concluded that the School would incur a \$4 million erosion in net cash flow. The two key variables driving the School's decrease in net cash flow were a \$5M increase in payroll expense and \$1.2M increase in fire insurance over four years, which was only partially offset by rising tuition. After creating baseline projections, Angeles worked closely with the School's CFO and Board to develop a sensitivity analysis around key variables such as: student tuition and payroll estimates, debt repayment and covenant ratios, capital projects, and fundraising campaigns. The analysis provided valuable insight which helped guide decision-making around portfolio asset allocation, expected return, risk budgeting, and liquidity.

The Results

After reviewing Angeles' analysis, the Board of Trustees was able to fully understand the range of possible outcomes and was better equipped to establish a spending policy consistent with the School's mission and long-term strategic plan. Initially, the School had \$60M in assets but only withdrew \$100k annually from their \$13M board-designated endowment. With the new analysis, the Board increased the board-designated endowment to \$50M and applied a 4% spending policy on the entire \$50M. The roughly \$1.9M increase in the annual draw from the additional endowment funds will help mitigate the School's projected shortfall and support the School's mission over the long term.

With a newly increased board-designated endowment and spending policy, Angeles is now conducting a full review of the School's asset allocation. Working closely with the Investment Committee, Angeles is reorienting the Investment Policy to more closely align with the endowment's new spending policy, which will allow the endowment to maintain its mission, long-term intergenerational equity, and long-term strategic plan. This collaboration enabled the Board of Trustees to understand these unprecedented risks, act with prudence and care, and maintain its fiduciary responsibility to benefit future generations of students, alumni, and members of the broader community.

"Angeles continues to serve as a key member of the team, providing ongoing guidance and analysis to enable the School's leadership to make informed decisions regarding the economic future of the institution."

Although the shortfall has not been totally resolved, the School continues to work through options to further mitigate future expenses (i.e., increase annual fundraising). Angeles continues to serve as a key member of the team, providing ongoing guidance and analysis to enable the School's leadership to make informed decisions regarding the economic future of the institution.



ANGELES PARTNERS WITH ORGANIZATIONS

At Angeles, our clients benefit from the resources and expertise we bring to bear as their “in-house” investment partner. Each relationship is approached from a holistic standpoint by deeply understanding our clients’ missions, strategic goals, financial objectives, and circumstances. We have found our work becomes even more meaningful and impactful when our OCIO role extends beyond managing portfolios and becomes more deeply integrated into the institution’s vision, mission, and long-term goals.

Serving clients for over 20 years, we have considerable experience working with and across different functional areas of an organization, including executive leadership, trustees, finance, development, and external stakeholders, such as donors. This experience strengthens our value as a long-term investment partner and amplifies our ability to make a difference in our client’s ability to support their mission.



CONTACT US

www.angelesinvestments.com

Santa Monica

429 Santa Monica Blvd., Suite 650
Santa Monica, CA 90401
310-393-6300

New York

375 Park Avenue, Suite 2209
New York, NY 10152
212-451-9240

Chicago

400 N. Michigan Ave, Suite S1700
Chicago, IL 60611
312.212.6843

The Angeles logo features the word "Angeles" in a blue, serif font. To the left of the letter 'A', there is a stylized graphic of a hand holding a pen, with the pen tip pointing towards the letter.