

DiMEO Schneider & Associates, Nonprofit Investment Stewards Podcast

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How To Hire a Good Investment Consultant — With Brad Alford

[00:00:00] Welcome to Nonprofit Investment Stewards with Bob DiMEO and Devon Francis from DiMEO Schneider and Associates, Bob and Devon are passionate about helping nonprofit organizations prosper. Whether you oversee endowment foundation or retirement plan investments, this podcast exists to help stewards, improve performance, reduce costs and discover strategies that enable your charitable organization to prosper and advance its mission.

[00:00:27] Now onto the show. Hello, and welcome back to the Non-profit Investment Stewards podcast. I'm Bob DiMEO, and as always joined by my co host Devon Francis today, we tackle a topic that's top of mind for many nonprofit leaders, especially if you're a CFO board member committee member that oversees a portfolio, or whether it be an endowment or a foundation.

[00:00:53] So here's the topic. When a nonprofit comes to the conclusion that they want to hire a new investment [00:01:00] consultant, how do they go about the process and how can they stack the odds in their favor to hire a good investment consultant? The first time out, we have a terrific guest who runs an OCIO and investment consultant search firm.

[00:01:14] But before we get to that, Devon, how are you today? I'm great. We are heading into the weekend, so Hey, what could be better than that? And we also have a very exciting guest with us here today. We have Brad Alford who founded Alpha Capital Management almost 15 years ago. To give you a little bit of background.

[00:01:33] Brad is a CFA and he is in charge of the firm's OCIO and investment consultant searches. So not only does Brad help universities. Hospitals, other charitable organizations, higher investment consultants. He's also been on the other side of the table. He previously was managing director for the Duke endowment.

[00:01:53] That happens to be my Alma Mater Duke university. And he also served as director of investments [00:02:00] for Emory university. Both of those are multi-billion dollar endowment portfolios. So he certainly has the expertise needed in the space. Brad. We are so glad you're joining us before we jump into how you and your firm are currently helping a whole variety of nonprofits.

[00:02:18] Welcome. And please tell us a little bit about how and why you made the career leap from working at universities and other nonprofits to essentially advising leaders of those nonprofits. Great. Thanks Bob. Thanks Devon. Glad to be on your show. It has been a, an interesting little twist. I enjoy my time in the endowment and foundation world, um, where I spent over a decade back in the nineties and then was with Invesco here in Atlanta for a brief while about five years, and then started alpha almost 15 years ago.

[00:02:49] You know, time flies when you're having fun. About five years ago, a friend of mine is on, uh, Goodwill, Goodwill of North Georgia, charity, [00:03:00] uh, ask us to help them with their a hundred million dollar pool of money. Cause they had a consultant and they weren't happy and they didn't have the staff to really look out at the consulting and OCIO world, which is.

[00:03:10] Golly, almost a hundred firms now that we track. And so we ran that process and really loved it. And the, and then kind of hung up a shingle and, and now, you know, fast forward five years in advance that we're helping anywhere from 15 to 20 institutions per, per year in their searches. So it's, it's very rewarding and we get to meet some really smart people.

[00:03:32] And I especially love working in the endowment and foundation, um, space, which is just incredibly rewarding. So Brad, if you had to drill down, can you pinpoint what you find to be either the most rewarding aspect or maybe even the most challenging part of being on this particular side of the business?

[00:03:53] Yeah, the most rewarding, especially in the nominal foundation, especially just, you know, what their missions are. And so we work with everything [00:04:00] from, you know, universities to art institutes, to like the Goodwill of North Georgia. Some are really interesting types of institutions that are out there helping people, um, on some really interesting causes.

[00:04:13] And so, you know, the biggest challenge that I see is so many are nonprofits in that world. They're very limited in staff. And so they really need help, you know, that people knocking on the door all the time, they're not investment experts. And so they need help trying to kind of sifting through this hundred plus firms that are out there that, you know, they're even more, but the ones we consider institutional quality on what makes them all different and which one is going to be their best partner and, uh, and truly a partner rather than looking out for themselves.

[00:04:44] But looking out for the, you know, the nonprofit. And Brad, the Industry, the third-party search and OCIO search profession really seems to be picking up steam. Can you talk a little bit about, I know your [00:05:00] firm has grown substantially, but how the industry itself and your firm has grown and, and really how these board and committee members and leaders at non-profits are leaning more and more on the profession.

[00:05:14] Yeah, that's a great question. Bob, Bob years ago, wouldn't have seen the industry and really the search firm and people call us consultants. But I really prefer to call it a search firm or almost like a headhunter in a sense. Because we truly come in and we're not a consultant we come in and it's a three or four months search.

[00:05:30] And then we, you know, ride off into the sunset and hope that you don't have to do a search for us to do this every seven to eight years, at least do an RFP and make sure everything's, um, you know, done correctly or where you are right now. And so now I understand. We first started doing this. It was very new industry and, uh, understand there's 20 or 30 different search firms.

[00:05:53] Um, out there I felt like, well, definitely one of the leaders, especially in the endowment and foundation space and our phone is [00:06:00] constantly ringing. We don't market at all. And you know, right now we're doing nine searches, so we're at capacity. And, um, and so it's been a great, uh, evolution of industry. And as a lot of this.

[00:06:12] The studies that I'm reading are saying in 50 to 60% of searches are now done through search firms and intermediary like us. And so it's really great cause non-profits, um, it's a big decision and nonprofits need the help, even though it's a brief project in three to four months, they definitely need to help to sort through this.

[00:06:33] Well, 50 to 60% of searches go through a third-party search firm. I had no idea the statistics were that high. That's really impressive. Talk about picking up steam. So what would you say the primary value that an endowment or a foundation derives from using a third party search firm? Great question. I felt like the value we add, especially as, as you know, who's out there, where are there conflicts of interest who is actually

[00:07:00] managing amount of word of their track records or their track records real is w there's a whole checklist of things.

[00:07:06] We go go through the team you'll be with what type of conflicts of interest. So there's a whole laundry list that we. Take a client through and then prioritize that and give them criteria. And so give them a little homework to do, but when you send an RFP out, it's a daunting prospect. And I think a lot of people don't go through searches because it's just not much fun to do an RFP.

[00:07:29] We've gotten pretty good at it. Um, you know, our RFP is about a hundred. So 120 questions with case studies and so extremely complicated. We put people through their paces. We, as we hear, and we get back responses that typically range between a hundred to 600 pages, considering all the exhibits we ask for ADVS and.

[00:07:51] Performance reporting and research reports and capital markets expectations and things like that. And so most nonprofits don't have a [00:08:00] staff that can really get their arms around that, or really wants to do that and read all this material. And so, you know, our staff, we're four

people, we're, we're small, but we punch way above our weight.

[00:08:10] We have some, our client lists that they occur at the end, the, of the industry and, um, And we're CFAs. We understand, I looked at them as well. And so it's complicated, but we really do all the heavy lifting. I think our clients, um, are really surprised on what little they have to do. And so, and another thing we really pay for ourselves is that we negotiate fees very heavily and we know pricing and we know what things should cost.

[00:08:37] And so I think clients appreciate that. Appreciate that as well. Brad, you're talking a lot about the clients that you're serving. And we started off talking about universities and your background, but you work with a wide variety of nonprofits. Can you talk about the sorts of organizations that might benefit from your services?

[00:08:56] I mean, it range of them right now. We're doing [00:09:00] two community foundations. We're doing an art institution and we'd done a lot of different family foundations as well, a private family foundations. And so it ranges the gamut. It's really interesting to see children's hospitals, things that. You know, we've helped with, but yes, uh, in the nonprofit world, um, there's all kinds of different types of nonprofits out there.

[00:09:23] So it's certainly not just endowments and foundations. So logistically speaking, when you run these searches, who are you typically dealing with at the nonprofit organization? The size of the nonprofit we've run big ones, like the university of Tennessee, where it's, you know, multibillion dollar endowment, where we're dealing with the chief investment officer.

[00:09:45] And so the billion dollar plus ones where they may have a chief investment officer Berea college is another big one that we did, which was in the billions. But a lot of the nonprofits may, you know, the smallest Mont nonprofit we ever did [00:10:00] was the statue of Liberty foundation. Certainly our most unique and, uh, I call it our coolest one we've ever done.

[00:10:06] And so when the statue of Liberty calls, you know, you, you jumped all over that. And, and so they didn't have a staff. And so we deal. We always deal with the board primarily. And particularly, usually there's an investment committee that we deal with. And so it just depends on the size, but the investment committee has always, the board has always involved to this whole process.

[00:10:23] You know, they're, they're making the selection, the staff and alpha capita are really helping them guide them where, and as we call it kind of guard rails. And we give them everything they want to know on a qualitative and quantitative basis. Um, but they have to make that decision. They ask us who will we pick?

[00:10:40] And we will never answer that. Um, we come into finals with, you know, usually we have three finalists. I never always think I know where they gonna pick. They almost always so curveball. And so our job was to just give them all the qualitative and quantitative information they could possibly, you know, analyze and them for make the decision that they will hopefully be with for the next eight [00:11:00] to 10 years.

[00:11:02] And Brad at DiMeo Schneider we advise hundreds of nonprofit portfolios for our clients and so on and working with the committees can be absolutely wonderful. And yet at times it could feel like hurting cats. So can you talk a little bit, I mean, you really have a finite project that I'm sure if the nonprofit comes to you, they're coming to you because there's a need, there's a pain point, right?

[00:11:30] And then they need to try to resolve this in a relatively, the short amount of time. And you've got so many, the really great folks who are board and committee members, but coming from different backgrounds, different sophistication levels, and even the ability to commit time in different manners. So. Tell us a little bit about working with the committees and kind of channeling them.

[00:11:55] And while you're not going to give the single recommendation, but [00:12:00] how can you keep the process rolling and really help them benefit throughout. Yeah, that's a great question, Bob, because every committee is so different. Community foundation is a very different structure typically, or type of person, then we'll be on a university endowment.

[00:12:16] You know, the great things about nonprofits is that are people that are extremely passionate about being on those committees. And they're very engaged and, and they vary an experience. I mean, some of the ones have. Big time, investment Titans on their committees. And some may not that, you know, people that are not in the investment world sort of tremendous amount of education, and we try to help with that.

[00:12:39] But it, it really depends on the size of the institution, a lot on what the committee makeup looks like. But, you know, our job is to come in as compared to we have some competitors that are actually consultants that come in and. You know, they actually want to be considered for the job as well. I mean, we come in at is, this is truly a project and we partner with them.

[00:12:59] And then [00:13:00] as I said, we ride off into the sunset. And so, you know, our job is to let them know the landscape, let, let them know everything we know about these firms. And after doing this for so many years that we know these firms very intimately. And no, you know what, a lot of the good, the bad ideas, we call it around here of each firm.

[00:13:17] And so, you know, it's just a tremendous amount of education with the committees, but the nonprofit world is so awesome because everyone is so passionate about what they're doing and they're on those committees for a reason. Do you have any funny year interesting committee stories that you can share with us?

[00:13:32] Obviously, keeping names confidential. Oh, gosh, committees are, are very different. You know, some of have big voices on there and, and some do not, but you know, it's really not so much the committees that kind of cracked me up. It's a lot of the, um, consultants and OCO and depends on what firm it is. And, and, um, but I can't tell you a funny story of.

[00:13:55] You know, now when we have these, these finals, they're over zoom, you know, [00:14:00] the finals used to be this half a day, and it's my favorite time. So you get down to three firms. We typically have six to eight firms in a search and get down to the finals where there's three firms and they used to be face to face.

[00:14:12] And now, as we all know, it's all over video, but we had a finals or a big university and Dick Tom board. And, um, one of the finals, was it a really big, well known. Wall street firm for remain to be nameless, but they had their chief investment officer on there. And so impressed that they invited him and he was wearing a suit and on the video, but he crossed his leg and his bare knees were right there on there.

[00:14:40] So after they got through presented, we had a big chuckle of, you know, what he was wearing underneath his coat, if anything. And so that was one of the funnier things, but certainly the, the finals are, are, are. The finals and the finale or where people kind of make or break themselves. I mean, they can just say one wrong sentence and the [00:15:00] board just doesn't want to go that direction and so can kill themselves.

[00:15:03] And so it is interesting how the finals all play out. And actually I'd like to stay on that topic for a little while, because it clearly is. Such a different landscape than where we were a year ago. So has the tone of the, these finals presentations really changed by being a virtual meeting rather than taking place in person.

[00:15:27] Have you seen certain firms that may be don't show as well in person really shine on the computer or vice versa? You know, I'm interested to hear how, how it's different other than folks not wearing pants for the interviews. You know, it's really evolved when we started doing, I think we had our first finals over was in may and it was just bad luck.

[00:15:52] I mean, people couldn't figure out how to share the screen and people's internet connections. Weren't good. And it was really hard and they [00:16:00] weren't using waiting rooms. And so other firms, cause you just we'd stack them up back to back to back. Three firms easily, a break and other firms were logging on early in order to see what the competitors were saying.

[00:16:11] And so it's, it's been an evolution and, uh, you know, I'm no spring chicken I'm in my fifties.

And most people we're presenting are a little older as well. And so watching them, trying to figure out, you know, how to use zoom or whatever platform their own has been interesting. But I think people are getting much better now.

[00:16:28] It's just becoming kind of people have given up. And so we're not going to have. Live meetings, at least not live finals for, you know, who knows 2021 some time. And you know, maybe in the spring of the league, but it's very hard for, I mean, certainly the incumbent from that the existing firm currently worked with has an advantage because.

[00:16:48] That people know them, but it's very hard for a new firm to get higher, but we've certainly seen that happen. I mean, it's funny. We come in too many people bring us in [00:17:00] because things are not working. I mean, I wish I could say everything's wonderful and they bring us in just to check the boxes, but it's just not the case.

[00:17:07] I would say of the searches that we've done in the last three years. There's a, the incumbent as being fired probably 95% of the time. So I guess if you see alpha capital coming, then you're probably in trouble because things are, are, are not good in a lot of it's people say it's not performance, but it's always performance and good performance can.

[00:17:27] Smoothed over a bad, um, kind of, uh, maybe a relationship manager or something. There's some bad chemistry going on, but that performance doesn't matter how charming the relationship manager is, there usually is a change. I don't think any firms better on the technology side, because there are a bunch of old.

[00:17:45] You know, old folks like me. And so they are getting better. And it's just hard when you're trying to get a team to present. And they're all at different locations and it's just people talking over each other, but you [00:18:00] gotta do what you gotta do. We actually have, we're doing it. Search for a very large grocery store and their pension fund.

[00:18:06] And we w the final supposed to be in March, and they decided that they recently met with them. They'd given up on waiting for this to go away and we can see each other face to face, but they're going to do it over zoom. And, and I think people have just realized that you got to get this done, and there's, there's just no light at the end of the tunnel, at least so far.

[00:18:27] And having life finals again. Brad, you talk about maybe the primary compelling reason why folks would even enter into a search would be performance. And they're probably a couple of other, uh, but maybe that's the main driver. What about the selection side? Is that the primary? Selection criteria or at that point, does everyone have relatively attractive performance?

[00:18:56] And if that's not the differentiator, what becomes the differentiator to the committee or

[00:19:00] board? Yeah, that's a great question, Bob, because I think the biggest surprise that our clients see and we show performance and performance is tricky. Most firms are not compliant, which is a standard where they're kind of hires kind of the gold standard of their performance has been certified that it's, it's real, as we say to our clients, and there's only a handful of firms.

[00:19:23] And so you can't really judge them on performance. Um, but I think our client's biggest surprises when we show performance is that everyone's within 50 basis points of each other on a five, seven and 10 year basis. They're all fairly close. I think our clients think they're going to find as consultant or OCO is beating everybody about two or 3% a year out per year.

[00:19:45] And that's just not out there. They're all running broadly diversified portfolios. And so it does have to do Bob with a lot of who the team is, the conflicts of interests. Are they trying to just push their proprietary product through this channel, through the [00:20:00] nonprofit channel? And so that's very important in their investment philosophy.

[00:20:05] Maybe they're out of favor, almost every consultant in OCO performances out of favor because they run broadly diversified portfolios. Um, they have non-use exposure. They have value stocks right now, which has been, not been the place to be. And then there may be heavy in. Especially in the endowment foundation world, because that's where I came from.

[00:20:22] They're running the endowment model. I mean, at the Duke endowment, we were half in alternatives, um, which is, you know, in the nineties and alternatives, uh, at least most of them are, are not working. Private equity is not working very well. Real assets. Aren't working very well. I'm sorry. Hedge funds aren't working very well.

[00:20:39] Private equity is working fine, but that's a long cycle to get invested in private equity. And so it's, it's a lot more than performance, but if you're. Hiring an OCIO. So outsource chief investment officer, where you're giving them discretion as compared to a non-discretionary manager, then performance bubbles up to the top.

[00:20:59] [00:21:00] And cause you really, as in the name says, you're outsourcing your chief investment officer. And so we focus a lot more on performance there. And I think it's a really important topic. And I think it, it kind of speaks to the importance of communication and effectively communicating with your clients, not you alpha capital, but consultants and OCIO providers communicating with their clients, the rationale behind the portfolio positioning what has worked, what hasn't worked.

[00:21:32] Bob and I have talked in, in previous episodes about. The role of the consultant as educator to the committee. So it's of course important to have a rationale as to why a certain portfolio structure is in place, but it's also important to make your clients understand why. And if you do have, for instance, a value bias, okay.

[00:21:52] Why has that been a headwind, but why do you foresee that headwind changing in the future? I, you know, I think communicating [00:22:00] the rationale behind the strategy is really important. No doubt about it. And the world has changed post COVID there's more than they want more than just investment advice for the consultants.

[00:22:12] I mean, they need to understand the liquidity of their portfolio. A lot of nonprofits, they aren't getting the donations they were, so they may have to. Take more money from the portfolio shows. I think the consulting OCIO firms need to be much more hands-on now or performance isn't the most important thing, but a lot of the ancillary services they can provide their non-profits is, uh, you know, uh, rising to the top as is really a differentiator among the different firms than just performance.

[00:22:41] Absolutely. And while we're on the topic of performance before we move away, can you talk a bit about the OCIO indices that you created and how those are intended to benefit nonprofit investors? Great topic. Thank you. Uh, to put a sales pitch in here, uh, as well, and that sales pitch,

[00:23:00] but about three years ago, we were doing an OCO search and trying to get our arms around.

[00:23:05] Performance. And since a lot of it, isn't dips compliant, this high standard that, you know, a lot of it, they do cherry picking and you know, what client clients they have in their performance composites. And so I really thought there should be a better way to do this. And so I approached a bunch of the.

[00:23:22] Consulting and OCIO firms about submitting their client on it on an anonymous basis that our performance and building indices. So, you know how as a group that OCI ministry was doing, and the feedback I got was, yes, that sounds interesting. You should find a partner. That's got a lot of data security and a big brand.

[00:23:42] And so we approached NASDAQ. And NASDAQ became our partner and a little over a year ago, we launched the alpha NASDAQ OCIO and this city. So we've got now 10 indices, five of them are client types. So we actually have an endowment and foundation index. So it's just endowment [00:24:00] and foundation, um, institutions, uh, their returns as well as their asset allocation, across 26 asset classes.

[00:24:07] And we now have over 700 institutions. You know, submitting their data and, uh, it's, it's been quite a success. Um, a lot of folks are starting to use it. We hope it will be the industry standard. It starts certainly headed that way. Then a tremendous amount of work. There'll be three years in this.

January of us kind of started down this path, um, that worked real with them and, and we continued to evolve.

[00:24:31] We have list-based indices. We have five indices that look at. The way the assets are invested across the 26 asset classes and puts you in five different risk buckets. It does many endowments and foundations are very different. They have very different risk profiles. Men may be heavy and fixing time on may be heavy and equities or alternatives.

[00:24:48] And so this will put you in five different risk indices. And so you can better compare apples to apples. And so we are thrilled that that is going so well. And we have now [00:25:00] 25 different firms that are submitting their data DiMeo is one of those. And so we're. Yeah, thrilled. They're one of the firms that have done, then it's really kind of opening it up and what we call promoting transparency.

[00:25:11] And so people really said, Hey, I'm going to be transparent about my performance. And so the asset owners, the endowments and foundations can really fairly judge how we're doing, whether when actually are we good at managing money? So, um, it's been great for the industry. There's still some people that are holding out and not participating, and we hope that will get there and their clients will demand them to the units.

[00:25:33] And so if you're in a dominant foundation and one of your, your consultant or OCIO is not part of this, and please ask them why they're not, because we'd love for them to be as free for them to, to be in it. And so there's no excuses. So that's a little bit about the indices, but I'm very passionate about them.

[00:25:48] We could tell. And Brad, it's wonderful because you have provided so many good insights here that I think would be so helpful to a financial officer or the board or committee member, frankly, any stakeholder at a [00:26:00] nonprofit. And I think the OCIO indices just amplifies that value add. So thank you to you and thank you to your partners and colleagues for all that you're doing before we let you go.

[00:26:10] We do want to learn a little bit more about Brad Alford, the person and. It being fall and given the Alma mater your Alma mater, I can have some sense of what you enjoy doing when you're not working professionally, but, but please share with us, what do you do for fun? Oh, gosh. Uh, I know you were talking about my Alama mater, so I'm a double Alabama grad.

[00:26:33] I grew up in Alabama and I was at Alabama back in the early nineties when we went to three or four coaches. So it wasn't as good as it is right now. So I do love Alabama football and my three kids, although I love Alabama football, but I'm a huge tennis player. I've got three teenagers and, uh, one this senior in high, in high school.

[00:26:52] So going through the whole college experience and, um, which is. Then interesting. So it's spending a lot of [00:27:00] time with them and the thought of one leaving is certainly daunting, but, uh, that's what I spend a lot of time with them with sports. They are all very active in sports. My both boys are, one's a tennis player and one on the high school team and one's, uh, football, basketball and baseball and the high school team.

[00:27:17] And then my daughters does year round volleyball. So I spend my weekends in gyms usually, or tennis courts or football fields watching them play. So that's a lot of fun for me and for my wife, we have our 20 year anniversary coming up, so that's exciting time for us and June. So, uh, all's well offered household.

[00:27:36] Congratulations. That's just wonderful. Thank you. And thank you for having me on your podcast. And, uh, certainly been a lot of fun and, and, uh, think y'all are doing a great service and helping educate the endowment and foundation and non-profit world about what's out there and all the different issues are they're facing right now, because we hear it from our clients.

[00:27:56] It's a very hard time to be in the nonprofit world. And, uh, [00:28:00] uh, you know, think we're doing is great. Oh, you couldn't be more right. That it's a challenging time to be in the nonprofit world. We so appreciate you coming on the show. Thank you so much. This has been really insightful

and you've provided a lot of clarification on a service area that I think many folks may not be at all familiar with.

[00:28:19] So I think you've really provided some important foundational knowledge. So thank you so much. Have a great weekend. It was great to have you on. Yep. Great. Have a great weekend yourself. Take care. Thank you. Bye. As we wrap up the show, just three things for our listeners. Number one, remember to subscribe to the show and know that we welcome your reviews.

[00:28:38] Next. If you have a topic you'd like us to address, or if you or someone, you know, would be a great guest, reach out to us, Devon or myself on LinkedIn. And then finally, if you lead a nonprofit or maybe you serve as a board or a committee member and want to explore strategies, That might make managing the investments a little bit better.

[00:28:57] Please contact me or Devon. [00:29:00] Definitely visit DiMeoSchneider.com where you'll find a ton of great resources. So to all you good stewards. Thanks for investing time to help your nonprofits prosper. We'll connect with you soon on the next episode. Thank you for listening to the nonprofit investment stewards podcast.

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