DiMeo Schneider & Associates, Nonprofit Investment Stewards Podcast
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Higher Education and COVID-19: Part 2 — With Bruce Laning

[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, we have a terrific show today, a continuation of our three-part mini-series on higher education. And in this episode, we are joined by a special guest, actually chairman of an investment committee for a university endowment with over 200 million in assets.

[00:00:55] But before we get to that, Devon, how are you today? I'm wonderful. Thank you. I've [00:01:00] had my coffee and I'm ready to go and excited to hear from our guests. We're going to be talking about what endowment committees are dealing with within the current environment and how they're navigating the challenges that are on the landscape.

[00:01:12] Excellent. Devon. Well, with that, let's jump right to our guest. Today we are so very pleased to have Bruce Laning. Join us as mentioned Bruce shares, the investment committee for a university endowment. Specifically Valparaiso university in Indiana. And Bruce does a lot more. He's on the board at Valparaiso

[00:01:31] He's a managing director at Wealthspire Milwaukee where he has a leadership role. And he's also a wealth advisor for private clients. He's super active in his community, a trustee for the Milwaukee symphony, a member of the Milwaukee analyst society, and a whole lot more. And I can tell you personally, Bruceton is an all around good guy.

[00:01:50] So Bruce, welcome to the show. Thanks, Bob. It's nice to be here. Looking forward to this before we get to the very important role of overseeing [00:02:00] and university endowment. Can you please tell us a bit about yourself and how you actually ended up as the endowment chair for Valparaiso? I sure can. Well, my background, uh, I was an under undergraduate at the business school at Valparaiso and, uh, and then, uh, joined a business world in Chicago.

[00:02:21] I was from, from Chicago at the time and, uh, we wound up. Uh, working in the, uh, investment or investment technology or IT area, and then wound up joining the trust department at a large bank in Chicago and from, uh, had a lot of interest in investments from a pretty young age. So I wound up. Uh, becoming a trust portfolio manager and somewhere down the road wound up in a leadership position at company, uh, the big bank in Milwaukee and wound up being asked to join the board of directors of [00:03:00] Valparaiso.

[00:03:00] That was about 14 years ago now. And it was interesting to note that there wasn't a lot of. Uh, individuals on the board that had a background in Smiths and investment management, and yet the school had a fairly sizable endowment at the time. So I felt like there was a pretty important, uh, position that I could be in, in a role that I could fill and offer some, some good value to the board that way.

[00:03:32] That's great, Bruce. And maybe you can share with us, tell us a little bit what the, the current environment is like at Valparaiso. We know higher education faces a lot of uncertainty and a lot of challenges, but just in a macro sense, what is the overall environment like at the school? Well, it's an enthusiastic school.

[00:03:51] There are a lot of, uh, great students there. The tone of the faculty and the administration right now [00:04:00] is a little bit somber because there are challenges in front of us. One of them being of course the coronavirus and. Whether schools operate virtually or in person, whether teachers teach in their classes.

[00:04:16] But in addition, whether or not students are even going to be on campus, but the other component is a challenge of enrollment and we. Have always felt that when there is an issue between revenue and expenses, it's more of a revenue problem than an expense problem. And so we, we have a lot of focus on trying to grow enrollment, but it's a very challenging time for that.

[00:04:47] So there's been some expense reductions over this past year that are reasonably significant and the tone of the. Faculty across as is a little [00:05:00] bit somber. There's been, uh, not the same level of salary increases. And there, there hasn't been quite the same level of enthusiasm because there's been a concern about making sure that a, the revenue expenses match.

[00:05:15] And that's understandable, particularly, right. You're acting in a stewardship role, you and the board and the committee are acting in a stewardship role and you're thinking long game. Right. And there can be some, some challenging decisions and discussions I'm sure In the interim. Well, in the Valparaiso's board, we are organized in various committees and the committees.

[00:05:38] Make a majority of the big decisions with regards to their subject matter, but each of the board members shares two committee assignments. So my second assignment is in the finance and administration committee. And therefore I'm looking over the budgets and the balance sheets and income [00:06:00] statements along with it.

[00:06:01] The endowment and both sides of that. But I would say the challenge is definitely managing the budget to the size of the university. It oftentimes when you have a disruption in the industry, you're going to get. Uh, rethink about exactly how a school will, will position itself going forward. And of course, there's for those that maybe aren't aware, there's the belief that there is going to be a, uh, an enrollment cliff that occurs, which is kind of interesting that, that we're still being impacted in the next few years by the 08 and 09 recession because the.

[00:06:46] People that would be having babies in 08 and 09. There were much fewer children being born during the great recession. And those kids will be going to college in 2026. So [00:07:00] there's actually an expectation that enrollment nationally is going to be down about 15% at that time, which is not that far ahead of us.

[00:07:09] Well, Bruce, you just made me feel really old with some of those numbers. That's a reality check. So stepping away from the, the finance considerations, which of course are hugely challenging in the current environment. Can you talk a bit broadly about how the endowment portfolio is structured? So Bob mentioned that it's over 200 million.

[00:07:32] Can you talk a bit about some of the different asset classes that you have exposure to, maybe how the portfolio has evolved over the years? I can, we have, uh, around 250 million and assets, uh, would say that the. Board as, and the committee in particular has been willing to accept and absorb some level of risk.

[00:08:00] [00:08:00] With regards to the portfolio. So I would say we're, we are not risk averse as an organization. Uh, part of that reason is that, uh, the combination of this committee is endowment management, but it is also capital planning, which is related to the balance sheet. So we are involved with creating lines of credit for.

[00:08:23] The university for looking at our bond ratings and potentially evaluating a tax exempt bond issues, which we have done. And so therefore trying to create liquidity pockets that are available, that would prevent the endowment from having a huge draw demand. Maybe at the worst time in the economic cycle.

[00:08:49] So the portfolio itself is, has a target now of about 90% equities. But the 90% I [00:09:00] would say has about 10%. That's allocated to non-traditional type equities, like real estate and, uh, natural resources. There's another odd, the 80% that is in more traditional equities. Actually, we have been willing over quite some time now more than 10 years to have a significant allocation to illiquid investments.

[00:09:30] So we have up to 30 pools that we are invested in of private equity and venture capital. And that's about half of the, the Le the other portion of the portfolio. And then we actually take that. The fixed income part of the portfolio, and we try to make it, uh, as maximally, uh, exposed to what happens if the equity markets go down.

[00:09:57] And so we have a [00:10:00] long treasury exposure on the, on the small portion of the portfolio, which tends to act bigger than its size in the effect of, of, uh, volatility, dampening, when things go sour. That's interesting. So you have kind of a barbell approach. You have the fixed income, which is very conservatively profiled, and then the equity part, which is a bit more aggressive.

[00:10:24] Absolutely correct. And how has you mentioned that you have exposure to about 30 underlying private equity strategies? How has that evolved over the years? Has the committee or the, the endowment overall. Always been committed to the private equity space, or is that something that has evolved over your tenure on the committee?

[00:10:47] It has evolved and not all of the experience. There has been good. Uh, we've learned some lessons along the way. Uh, we had a pretty significant real [00:11:00] estate, private, real estate component that, that problems in the 08 and 09 recession that costs some significant returns. But our view is that you have to spread out the risk of.

[00:11:16] Your exposure by owning a number of different what we'd call vintages, uh, which is our new launches of pools of private equity in order to bred the risk out of any one vintage a year, being a difficult year for investing. And so with our private. Uh, exposure. Our belief is that we're able to achieve somewhere between two and 4% returns above the public equity markets over time.

[00:11:50] And Bruce given the current state and the volatility and the uncertainty has the committee. Taken on any sort of different view in [00:12:00] terms of the liquidity of the portfolio and the amount that might be allocated to less liquid asset classes and strategies. We actually do a very significant amount of work related to liquidity.

[00:12:15] So I would, I think that's an excellent question because we look at, for instance, we just completed a study in the last meeting. We went through that, which says, what if the markets draw down 20% from here and 10% the following year. Which is kind of a cataclysmic market event. How can we manage our liquidity of the portfolio?

[00:12:41] And it is. It's a meaningful exercise because it gives us a comfort level in how much illiquid investment we can make. As you know, Bob, these are long-term investments. They, you don't always predict when the distributions are going to occur or [00:13:00] when the capital calls are going to occur. And so the other part about spreading them out is that you have a wave of funds.

[00:13:07] We have a wave of funds that are. In their distribution phase at the same time that we have, uh, some new pools that we're investing in, that the capital calls are coming. And we kind of evaluate that and say, now, like we've looked out two or three years and said, we're going to have significant amount of distributions in year two and three.

[00:13:28] Most likely we need to put an investment in a place that starts calling capital about that same time. If we're going to maintain our. Illiquid equity percentage, that that sounds like a very thoughtful approach and pacing model. And so on before we talk spending policy and that sort of thing, there obviously are large allocations to more traditional investments as well.

[00:13:53] Can you talk a little bit about active versus passive and the committee's view on that? I can, [00:14:00] I would say that the committee probably had a or influence in the domestic markets and moving more towards a passive approach over the last, I don't know, I would say five years, at least we've always had a component of passive, but I would say that we are probably a shared level of passive and active.

[00:14:26] Probably more passive now than active in the, in the U S domestic large cap stock market. We believe that there is some ability to add value by active managers may be more so in smaller and mid-sized companies as well as international investments. And do you tend to be neutral or will you have. Shifts and allocations based on value versus growth.

[00:14:57] Uh, we have tended to be [00:15:00] more neutral on that. I think that to the extent that we are passive and a big component and the passive index has actually become a growth leaning index at this point. So it's interesting to see that you wind up leaning in the direction of what's working. With that passive component and you wind up having a little bit of a bias towards, towards growth when growth is working.

[00:15:27] But that's part of what we like about that. We're not, uh, we understand ourselves as a committee and not being a committee. That's going to. Jump on the phone on a week and say, you know, we need to make a tactical change. That's not typically how we're going to respond or act. So we we've tended to think longer term that way.

[00:15:51] And it's, it's worked pretty well, but also just understanding that we're, we're not going to be able to make those very quick strategic [00:16:00] shifts, like maybe some others might do Right long Term approach. Tends to work better. So going to the topic of spending policy, you mentioned that you try or that the committee tries to avoid significant drawdowns.

[00:16:16] Do you have a formal spending policy in place? Do you typically take a certain percentage from the portfolio or do you try to just let it grow and not touch the portfolio at all? That is a question that we evaluate almost every year, but it's a actually we've kept the spending policy in place that that's another policy that was born out of probably the 08 and 09 recession.

[00:16:45] Because prior to that, we had a policy that basically spent. A percentage of the portfolio each year on market value. And then after 08 and 09 hit, there was a little bit of a [00:17:00] rude awakening. It particularly, and at the end of Oh eight as to a level of spend, that was going to be quite a bit less, that affected the budget pretty heavily.

[00:17:11] So we are now using a, more of a smoothing approach to the portfolio and actually. Uh, we have about a 4% spend on the basic portfolio. And then there is a draw for marketing of the endowment and a draw for the administration of . So the policy right now is four plus one plus one which has been about. A 6% policy, but it's actually because of its smoothing levels in the way we've set it up.

[00:17:46] But we're actually spending somewhere around 5%, uh, over the last 10 years, the, what they put in place was something that said 70% of the 4% spend [00:18:00] is going to be based on last year's spend plus a CPI type of a number. So what's happened is with the market's going up over the years, it's actually prevented the portfolio from spending more than it should, but also protecting it, uh, in the downside that there isn't going to be a big, uh, budget problem because of the spend.

[00:18:26] So given the current environment and the challenges that you already discussed on the revenue side with decreased enrollment and the pandemic environment, and not as many students on campus, has there been any sort of discussion about increasing the draw from the endowment, just to kind of get the university through this current environment?

[00:18:51] Yes. I can't imagine that any, uh, university endowment oversight hasn't been [00:19:00] looked at from that standpoint because of the shifts and, and enrollment and the, and the shifts and the demographics that are occurring are our shift was that we had a bit of an issue with. New students over the last year or two.

[00:19:20] And we felt being a revenue problem, that there was a demand for better technology, better outreach to prospective new students. And so we allocated a portion of the additional spend, had that big, long discussion and decision a year or two ago. To do this, uh, particularly for enrollment for basically for revenue generation.

[00:19:46] So yes, there, there are one time spends we never do it for more than one particular period. And I think already, if you're at a sort of a formal five to [00:20:00] 6% spend rate, you're kind of at the top end of what you should be doing as an endowment, this point. Bruce, I think you're spot on when you talk about, uh, and spot on and prudent, when you talk about other universities committees and so on, probably examining this committee, this, uh, this strategy and potentially needing to draw down, I think of Valparaiso and a number of smaller and medium-sized schools.

[00:20:27] That do not generate much revenue by way of athletics. But then I think about say big 10 football where schools are literally modeling and navigating a hundred million dollar loss because of a lack of football. And now maybe it's paired back with the big 10 kicking up, but it's very interesting. I think any good investment committee would model these sorts of things.

[00:20:51] And so that leads to. Really wanting to glean your insights on what makes for a good investment committee in your view. And how has your use [00:21:00] evolved over time? Well, we have a governance committee that I also participate on because I'm the chair of the capital planning and investment committee and the governance committee identifies, uh, individuals for the board.

[00:21:14] And it also identifies individuals for committees. I feel blessed that we have a. Broad cross section of backgrounds, which I think is important to have for an investment committee, not just to have somebody of my background with the investment management type background, but also have somebody from the accounting field.

[00:21:37] One of our individuals comes from private. Uh, prep from a private equity holding. Uh, one of them comes from a compliance area, so it it's a combination of people, all in leadership positions that create this committee and then securing longer [00:22:00] relationships. Some. I think our board also did this awhile back, which, which was to shift people between committees a lot.

[00:22:08] And there seemed to be too much of a learning curve happening every other year for people joining or leaving the committee. So we've done a little bit less of that over the last four or five years, and we've done before so that people can really get to know the history behind the decisions that are being made and not to go in and.

[00:22:30] Make a big decision difference. We also feel that people can come in with one approach in mind already and wanting to influence the right, uh, the rest of the committee on that approach. Uh, that's happened to a couple of times and our committees history that I've been on and people have to keep an open mind.

[00:22:53] We're very open. We welcome. Difficult discussions on the [00:23:00] portfolio and scenarios. And I think that creates a healthy environment, but if your preset on one particular approach that somebody knows personally, or they know a person that can help personally, that's typically a problematic when it comes to endowment management versus the chair.

[00:23:22] What is your strategy? To help the committee. And sometimes it's even just a single committee member too, that might become short-sighted in there Thinking, and I don't say that as really a knock on the person, but just with markets and news and, and uncertainty and nervousness might become short term thinking or oriented yet.

[00:23:46] You know, this is a university that shootings exist in perpetuity. What is your strategy for kind of corralling, if you will, the committee to really keep their long-term [00:24:00] stewardship caps on. That has come up. And I would say that the way that we have handled that previously is that we have conversations outside of the committee meeting to discuss the particular issues or desires of the committee member to do certain things.

[00:24:25] And if they are willing or if they're not willing to go along with the committee's majority decision is a very important issue because there are people that are short-term and thinking, particularly in the recent past where we're having major, major issues happening, uh, economically speaking. And I think that it's important for everybody to try to keep that focus.

[00:24:53] But on occasion I can think of one committee member that. [00:25:00] Just decided they couldn't live with. Um, not reacting to the short term and decided that it probably wasn't best for them. And the CA I think the committee handled, handled it very professionally, which is that we discussed it at length and we voted on it and came to that conclusion.

[00:25:21] And they said, well, they're not gonna be able to accomplish what they personally wanted to do with this endowment. And we moved on. So I was proud of that. It sounds like everyone was putting the university first. Absolutely. And it can be so hard. I mean, you talked about the importance of building an investment committee with not only diverse perspective and backgrounds, but also with some level of financial and investment expertise.

[00:25:52] So a lot of times when you get. Multiple people with investment backgrounds in the room, everyone feels the need to kind of [00:26:00] prove their worth. And sometimes to some people that may lead them to suggest changes or, you know, make short term, uh, changes just to say, Hey, I made my mark on the portfolio, but usually when we're dealing with the perpetual pool of assets, that's not the prudent thing to do.

[00:26:21] I absolutely agree. It does. It does come up that people want to prove their worth. I think that the committee has evolved a lot and I think it's actually functioning extremely well right now, but it hasn't always, and there's been some discussion and decision about major shifts in strategy. Mostly that occurred during the 08 and 09 recession and the great recession.

[00:26:52] And I think that out of that came a pretty healthy level of oversight. We hopefully learn from our [00:27:00] mistakes, uh, and, and move forward. The other part of what this committee actually does is outside of the Endowment per se, from the standpoint that we evaluate properties within the. University that we would designate as non-core properties have been people that are in the property management business in Valparaiso that want to have an opportunity to work on those.

[00:27:29] And we, we just, uh, the number one rule in our, our view is not to have any conflicts, not to have any business interest in the outcome of the decisions that we're making on behalf of the university. Versus as we draw on your article close here, and this has been so insightful, it's so generous of you to take the time, to share this perspective, which will be so helpful to so many folks working in any capacity in terms of [00:28:00] university endowment oversight, that sort of thing.

[00:28:03] But what about Bruce Laning the person? Just two questions. One. This pandemic year has been challenging and strange and weird to say the least tell us one silver lining that Bruce landing has experienced. And then I know you're a self described servant leader. What do you mean by that? Well, I actually, one of the harder changes was that I have made a commitment a little bit later in life here to be more significantly focused on physical fitness and what I'm missing this year.

[00:28:40] Was that in, uh, for the first time in my life, in the prior two years, I did a six triathlons. There were no triathlons this year. So I missed that. I actually enjoy it. It's a goal that keep in mind to get ready for a certain time to go do. [00:29:00] Do an event and it's a focus. I like having the goal in mind, but I did manage to work a lot on things at home.

[00:29:09] And I think that causing, uh, there was a good change in focus that, uh, shaped things up a lot at home. But I, I miss, uh, the interconnectivity that I have in my business and in a. City of Milwaukee, where I live. Uh, and I think that that's something that I look forward to things opening up a little bit more, right?

[00:29:33] The social interaction is fine. My significant other looks at me and back home office, uh, where we are, some are where I have been most of the time since spring and I have five screens up. She looks at me and shakes her head. So it's like, well, this is what I do for a living. So, you know, I have to have the various screens up to look at different pieces of data [00:30:00] and I'm actually, I've been able to focus.

[00:30:03] The interesting thing is that I think I'm actually working more now than I did before, because there is kind of no, no end to the day sometimes. And so I find that fascinating. You're so right. I was just saying to a colleague, how I feel like I kind of dribble in and out of my day, I get started in the morning.

[00:30:25] Then I take my kids to school. I let the dog out, I get back to my desk. And then at the end of the day, I leave my desk go down and make dinner, but I always make my way back up. It's it's hard to put a full stop to the end of the Workday. Yes. So, Bruce, can you go back to Bob mentioned that you described yourself as a servant leader.

[00:30:47] Can you go back to what you mean by that? Sure. I enjoy the roles that I have or, um, in most cases, a lot of cases, I'm not. Well, you know, I'm not [00:31:00] looking for recognition, but I'm, I'm looking for the leadings of my God and the process. And, uh, as a part of that, I've actually mentored a lot of people in coming from difficult.

[00:31:17] Points of their life, where they're losing almost everything or, uh, Lou having a difficult time relating to people. And I find sometimes I have the opportunity to connect with those and it makes me so very grateful for what I have, what I'm able to do. And I think that's something that I feel that I am.

[00:31:38] Basically called to serve that way with regards to the office, part of it is, uh, encourage people to get involved with the community to get involved with things that are passionate about. I'm also a trustee for the Milwaukee, the symphony endowment, and I, I have a passion for the arts as [00:32:00] well, but I find that, uh, those are all time commitments and I.

[00:32:05] I tell people that if they're going to get involved with those types of things, they have to first have a passion for it. It can't be a business purpose that they're looking for. It's gotta be something that they think that they can help make better. And that's part of it and taking extra time for people that aren't necessarily connected to the business.

[00:32:29] I think partly I. Look to my late father, that way, who ran, uh, a natural gas pipeline company in the Chicago area. And what I remember I noticed about him was that he was an individual in his office where he knew everybody from top. Staff and the organization to the security guard out front and would say, and talk to each one of them by name, when I visited him at the [00:33:00] office.

[00:33:00] And I thought that's, that's something to look up to. So I've, I've tried to do that. That's very commendable. It sounds like your life is Meaningfully driven, which is important. And you mentioned the word gratitude. I think the practice of gratitude is just so vital to living a happy and content life and having gratitude kind of.

[00:33:23] Drive our, our actions is, is really important. So Bruce, I echo Bob's comments that this has been so insightful. We really appreciate your time. You've given us a lot of interesting, uh, Thought provoking, um, answers to our questions. And it's great to hear about how the Valparaiso is handling the current environment.

[00:33:46] I am excited about the third part of our mini series coming up. So we'll have a trifecta of higher ed experts, uh, which will be out in the coming weeks. And also I'm excited for our other upcoming shows. So, Bruce, thank you so much for [00:34:00] joining us today. It's been a real pleasure. Thank you so much. It was a pleasure to be here.

[00:34:04] I enjoyed it. Thank you, Bruce. And as we wrap up three things for our listeners, one, remember to subscribe to the show and know we welcome your reviews. Next. If you have a topic you'd like us to address, or perhaps someone, you know, would be a great guest, please reach out to me or Devon via LinkedIn. And then finally, if you lead a nonprofit or perhaps serve as a board or committee member, And you hope to explore strategies to potentially better manage the investments you oversee, please contact me or Devon and certainly visit DiMeo Schneider.com where you'll find a ton of great resources.

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