WELLS FARGO ADVISORS

Consulting to Endowments and Foundations

Institutional Consulting Group

Together we'll go far

Common challenges

Although individual foundations and endowments have different specific targets, there appears to be a common thread that runs through all of them.

If you have established your own foundation or work with a community foundation or educational organization foundation, it's likely your primary mission is to strengthen the fabric of the community in which you live.

This commitment to the local community by nonprofit organizations has had a major impact on the culture of the United States.

Common challenges (continued)

A major challenge that faces all foundations and endowments is the management of the portfolio's assets to ensure the continued accomplishment of the foundation's mission. Ours is a world of complex financial issues requiring more data, more time and more expertise than most of us have in order to manage assets prudently. If you have responsibility as a fiduciary with a nonprofit organization, the term "prudent" has special meaning. Common law requires trustees to show the same care and degree of prudence as any competent investor.

In addition to the prudent care requirement, private foundations also face required distributions each year, while public nonprofit organizations face the problem of endowed funds under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) falling below their historical dollar value.

One last challenge facing trustees and administrators is to provide dollars for future beneficial projects that are not eroded by inflation. (This requires constant review of the portfolio structure so the value of the fund keeps pace with inflation as well as the dollar value of future grants.)

An uncommon response

At Wells Fargo Advisors, we specialize in guiding fiduciaries through the maze of difficult financial decisions that must be made daily. Since 1976*, we have employed a fiducially sound process that has helped institutions:

Develop	• Develop sound, effective investment strategies in the face of rapidly-changing global capital market environments.
Develop	• Develop sound spending policies.
Hire	• Hire competent, professional investment managers.
Monitor	• Monitor the progress of fund assets relative to the risk-adjusted goals.
Recommend	• Recommend changes as managers evolve or goals change.

** Through predecessor companies of Wells Fargo Advisors*

Spending policy

Each foundation has a unique mission that drives what it needs to spend. Developing a spending policy may be one of the hardest steps to complete in the fund's planning process. However, it is critical if the fund is to have a complete investment policy and an effective asset allocation strategy. The portfolio trustees must define their charitable goals, make a realistic assessment of current and future resources and develop a sustainable budget.

For most foundations, a "sustainable" spending policy is one that can be maintained indefinitely without depleting endowed assets. This can be done only if the spending rate is slightly below the average real rate of return on the portfolio. ("Real rate of return" is the return on the portfolio after the rate of inflation is subtracted).

The Institutional Consulting Group at Wells Fargo Advisors can help the trustees in designing a spending policy that balances the need to provide benefits and the need to maintain assets in the fund for the long-term.

The spending policy is also the driving force behind the development of an investment strategy and asset allocation policy. After the spending policy has been formulated, the Institutional Consulting Group will help in this next critical stage of developing the investment policy for the fund.

Our role

Our Wells Fargo Advisors consultants begin each of their consulting assignments helping trustees and key decision-makers develop and review a portfolio's investment policy, objectives and guidelines.

We begin by reviewing the client's mission statement. This document is the basis for all decisions made relative to the long-term activities of the portfolio. Our consultants then meet with the board or investment committee to discuss risk tolerance. This process helps us and the key decision-makers to understand the board's or committee's predictions for these goals as if they were functioning in the long-term economic climate, particularly the portfolio's income needs, the desired asset allocation, the perceived risk tolerances, the policy constraints and other pertinent investment considerations.

This process helps us develop an investment strategy that seeks to maximize the probability of achieving your needs within the time horizons and risk tolerances of the fund.

Review mission statement/ trust document → **Discuss** risk tolerance → **Develop** investment strategy

Investment policy and guidelines

As consultants to your portfolio, we review with you the goals, objectives, guidelines and risk tolerance for the assets being managed. We believe that development and review of the investment policy statement is the single most important step in achieving investment success; it is the blueprint for the entire investment program, establishing the direction for all investment-related activities.

Key components

Key components we look for in an investment policy statement:

1	Statement of the role of fiduciaries in the investment process.
2	Statement reflecting the responsibilities of the investment manager in the investment process.
3	Clearly-stated investment objectives.
4	Acceptable asset classes specified.
5	A defined asset allocation policy.
6	Delineated risk tolerance of the fund (i.e., liquidity, quality).
7	A clearly defined method of gauging success of fund/managers.
8	A statement of the time horizon for achieving goals.

The importance of a written investment policy statement

A written investment policy statement is an important tool providing the client with realistic targets for future investment performance and a means for judging the quality of the results. For many of our clients, the trustees and key decision-makers may change over the years. The investment policy statement remains a constant reminder of decisions made and objectives desired and may serve as a valuable training tool for newly appointed trustees.

In addition, this document provides the investment managers with a clear understanding of the portfolio's goals, objectives and guidelines, enabling the manager to invest the assets in such a manner that they can fulfill their co-fiduciary responsibilities to the fund. We believe a review of the investment policy statement on a regular basis is the best approach to monitoring adherence. We are dedicated to the development and annual review of an investment policy statement because of its importance to investment activities.

Risk posture and asset allocation*

We do not begin the asset allocation process with our idea of the perfect portfolio and then attempt to convince you of its merits. The client's risk evaluation will help establish consensus among key decision-makers while providing an important basis for future reference. The outcome of the assessment process is a defined equity range from which we begin the portfolio-structuring process.

The process focuses on isolating an equity range because the equity allocation in general is a key driver of portfolio expected return and volatility. Working within pre-established risk parameters, efficient portfolios are evaluated and an optimal mix of assets is determined with your needs in mind. Lastly, we recognize that, in crafting the ultimate strategy for you, the science of portfolio optimization should be combined with intuition and common sense.

Manager selection

Wells Fargo Advisors consultants utilize the Wells Fargo Investment proprietary Global Manager Research team, and have full access to a dedicated team of research analysts.

The manager search process is free from conflicts of interest as Wells Fargo Advisors does not receive compensation from managers to be evaluated or included in searches. Analysis and recommendations are objective and based on unbiased research.

In addition, our manager selection process employs unique processes that go beyond traditional quantitative screening and qualitative assessments.

Manager evaluation

True investment advisor research entails a particular type of analysis that may not be common at many firms. Unlike security analysis that attempts to predict the future behavior of stocks, bonds and their hybrids, this kind of research attempts to identify managers that are compatible with a client's needs and objectives. It is fairly common to find investment advisor research that provides only quantitative information on managers.

We believe the true mark of value-added research rests with the degree of analysis performed on the qualitative issues: personnel, investment process, investment disciplines, implementation of the process and the business structure of the management firm. Consequently, our research team takes great pride in the depth and breadth of our analysis of managers that are suitable to the needs of our clients.

We view these qualitative meetings as a critical element of our manager selection process and a key component of the value we add as consultants to our clients' portfolios.

- Past performance does not predict future success.
- It is important to distinguish between portfolio returns and performance.
  - **Returns** *are defined as absolute numbers.*
  - ***Performance*** *represents risk-adjusted excess returns measured against an appropriate benchmark. These returns must be evaluated over multiple time segments to avoid the possibility of time-period bias.*
- The quality of the advisor’s personnel, process and organization is the leading indicator of future success.
- Our opinions should not be interpreted as short-term performance forecasts.

Our goals

Unbiased opinions

Our objective is to provide an unbiased justification of our opinions about an advisor’s ability to add value for our clients.

Due diligence

The ongoing evaluation of managers in our database remains the focus of our process.

Differentiate advisors

A primary goal is to articulate the differences between managers. Even managers within the same style will have investment characteristics that are different from each other or the benchmark that they are measured against.

Separate coincidence from skill

Understanding the sources of performance is a critical function of analysis. Outperformance in a given quarter may be a coincidence that the manager was in the right place at the right time. By the same token, being in the wrong place at the wrong time is not necessarily due to a lack of skill.

Portfolio construction and ongoing manager due diligence

While hiring the most suitable managers is our initial goal, applying these managers to a portfolio solution in the most efficient way is what we believe most distinguishes our process from other consultants.

By focusing on the puzzle, and not just the pieces, we create complementary manager combinations that can further accentuate the risk/return benefits of the asset allocation process. Conventional processes result in the assembling of managers from each category as determined by the asset allocation process with little thought as to their synergy and compatibility.

Our research on managers includes backtesting which managers have worked best with one another across a backdrop of diverse economic and capital market environments. Traditional divisions of style within a given asset category, such as value and growth, have limitations as we pursue optimal portfolio construction.

Our process subdivides these traditional categories into finer definitions of style and strategy that has resulted in broader diversification and better risk/return characteristics for the overall portfolio.

Portfolio construction and ongoing manager due diligence *(cont.)*

These fine-tuned portfolios require even greater due diligence on an ongoing basis to ensure that chosen managers adhere to the specific style and strategy that defined their role in the portfolio structure. The Global Manager Research team continually monitors the activities of managers, focusing on quantitative and qualitative measures and rigorous testing criteria.

Record-keeping and reporting

All of the efforts of a good consulting process are meaningless if you are provided with inadequate performance records and poor communication of results. Our quarterly performance monitoring includes information necessary for us to fulfill our responsibilities as a fiduciary, and to provide the other fiduciaries with a report that is presented in a logical and concise format. Our report includes the following components:

- **Capital Markets Review —** Provides an overview of the economy and the capital market environment for the preceding quarter as well as year-to-date, and annual period information.
- **Executive Performance Summary —** Includes portfolio-level performance compared to custom and absolute benchmarks as well as manager-level performance compared to style-specific benchmarks across all applicable time periods.
- **Asset Allocation Summary —** Illustrates comparison of the target policy allocation and the actual portfolio allocation at the current quarter end date.

Custody and safekeeping

Custody services are provided through Wells Fargo Clearing Services, LLC (WFCS, LLC). WFCS provides safekeeping services and comprehensive accounting of all transaction activity and securities holdings.