

# Performance Evaluation for Endowments

*Funding the Mission*  
VS  
*Beating the Benchmark*

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# Endowment Goals

Portfolio Value	1,000,000
Inflation	1.81%
Withdrawal Rate (Annual)	5.00%
Withdrawal Rate (Monthly)	0.42%
Minimum Required Return	6.90%

*(For our 10-year performance analysis)*

- **Mission:** supply ongoing financial support
- **Fiduciary Responsibilities:**
  - **Primary:** preserve real value of assets
  - **Secondary:** *“intergenerational equity”* to maintain financial support in perpetuity



*“Why should I care about the next generation?  
What have they ever done for me?”  
(Groucho Marx)*

# Key Financial Concerns for Endowments

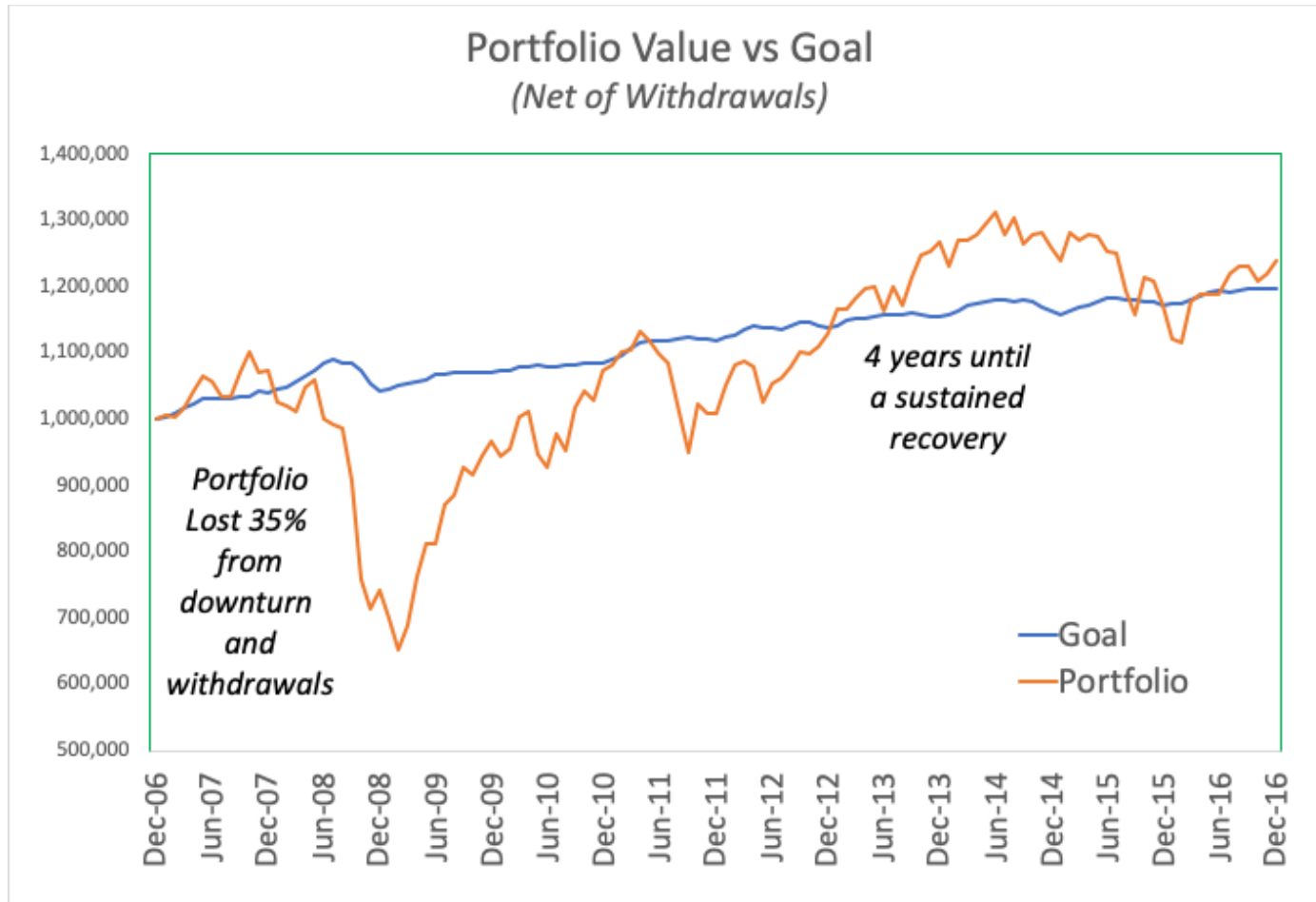
- Do we have a sustainable *spending rate*?
- Can we continue to spend through *down markets*?
- Is our “corpus” (*principal value*) at risk?
- Will our portfolio keep up with *inflation* after spending?

# Key Performance Metrics

- Goals are expressed in **money** terms
- Risk is **failure** to accomplish the mission
- **Returns** are only a “*means to an end*”
- **Goals** ARE “*the end*”

*“Goals-based performance is about money and risk from the client’s perspective.  
Product performance is about returns, marketing and fund manager’s competitive risk.”*

# Evaluating Primary Fiduciary Duty

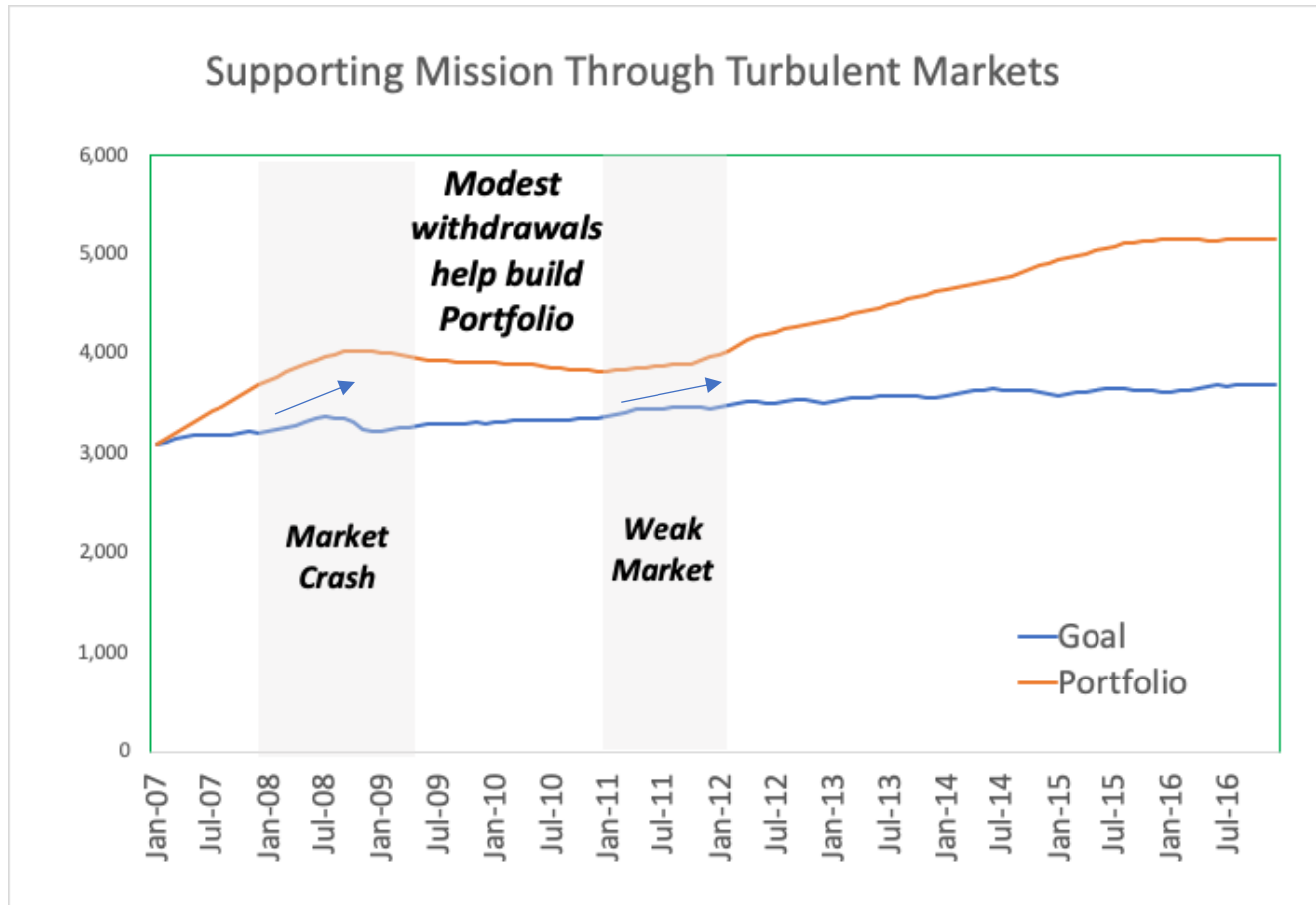


Telling the Story...

Insights without complexity:

Confirming Long-Term Success achieved via a reasonable plan

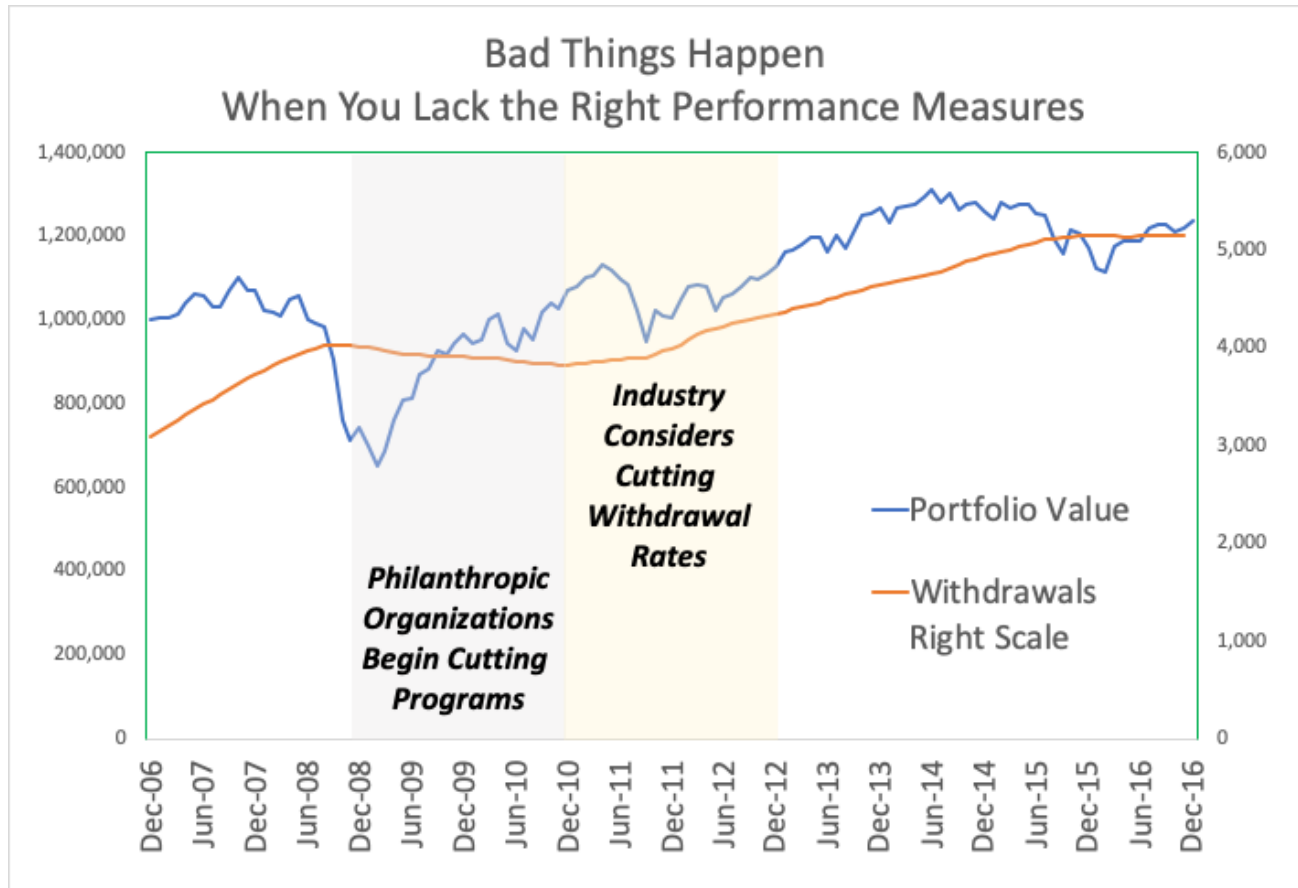
# Achieving Success in Mission Support



We beat  
our goal  
of  
supporting  
the mission

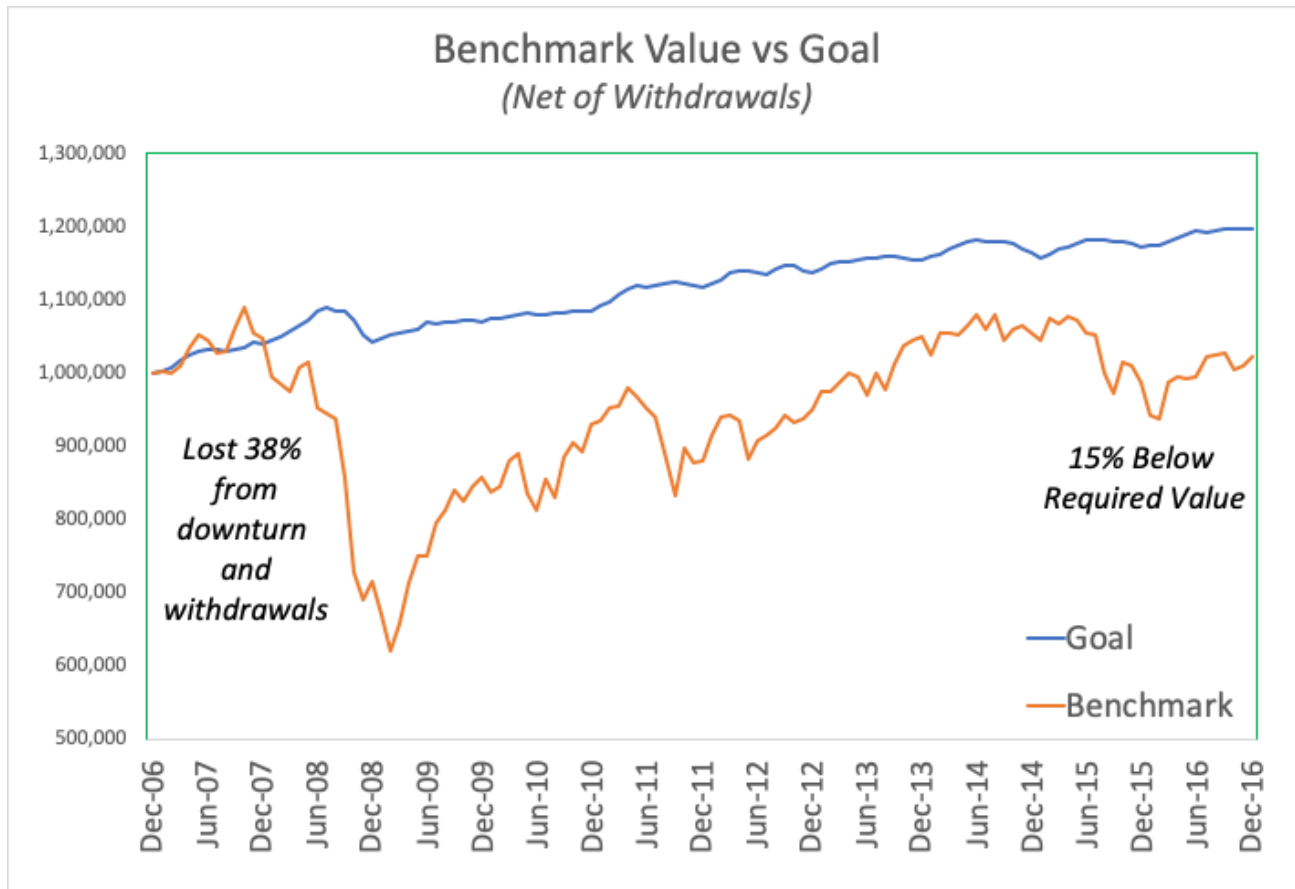
Spending increased at time of greatest need

# Wrong Goals Lead to Unnecessary Failure



- Many organizations focused only on **downside returns**
- This wrong focus led to wrong decisions  
(Cutting support unnecessarily)

# Passive Results in Preserving Principal



- Greater initial downturn (38% vs 35%)
- Passive strategy failed to recover principal value



# Goals-Based Performance Review

## *Cumulative 10-year Results*

Portfolio Results	Goal	Result	Relative Performance
Total Withdrawals	414,337	512,059	124%
Ending Value	1,196,434	1,239,644	104%
Total Earned Value	1,610,771	1,751,703	109%

Benchmark Results	Goal	Result	Relative Performance
Total Withdrawals	414,337	460,185	111%
Ending Value	1,196,434	1,022,620	85%
Total Earned Value	1,610,771	1,482,804	92%

- Proper emphasis on **Stewardship** – *Focus on the MONEY*
- Active management was key to meeting key **Fiduciary** goal

# Goals-Based Attribution

## *Cumulative 10-year Results*

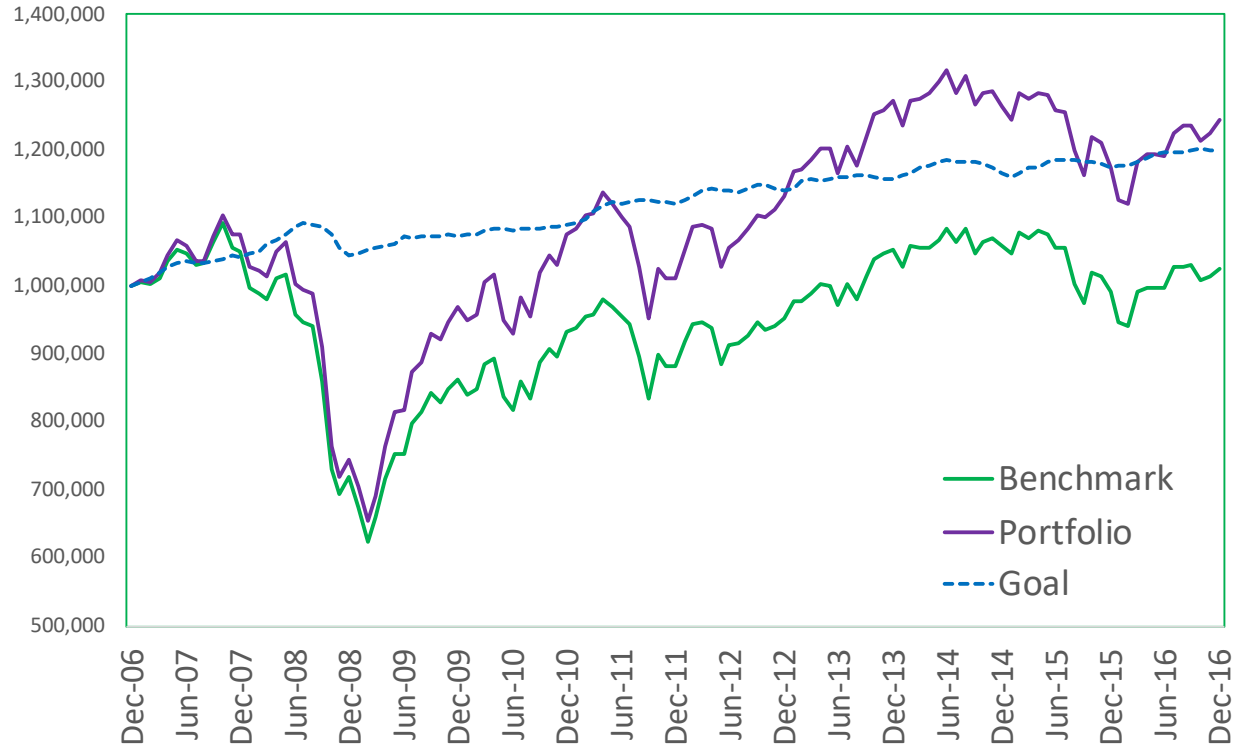
Goals-Based Attribution Results	Portfolio	Benchmark	Excess (\$)	Excess (%)
<b>Total Withdrawals</b>	512,059	460,185	51,874	5%
<b>Ending Value</b>	1,239,644	1,022,620	217,024	22%
<b>Total Earned Value</b>	1,751,703	1,482,804	268,898	27%

Portfolio earned 1.75x "multiple" while a passive approach earned only 1.48x

Imagine the use of an additional \$269,000 per million invested!

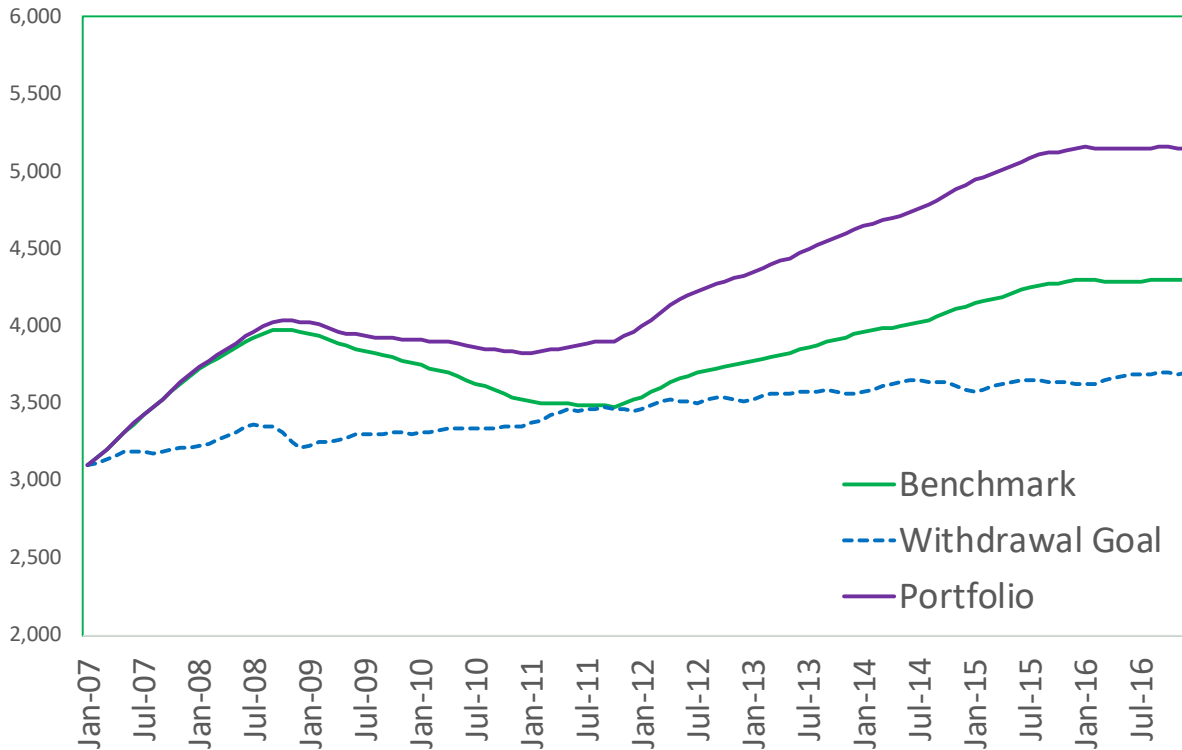
- Confirms value of active management in meeting goals
- Presents strong marketing message to donors
- Demonstrates true partnership with clients

## Total Earned Value: Spending plus Principal Value



We separate Market effect from Active Effect

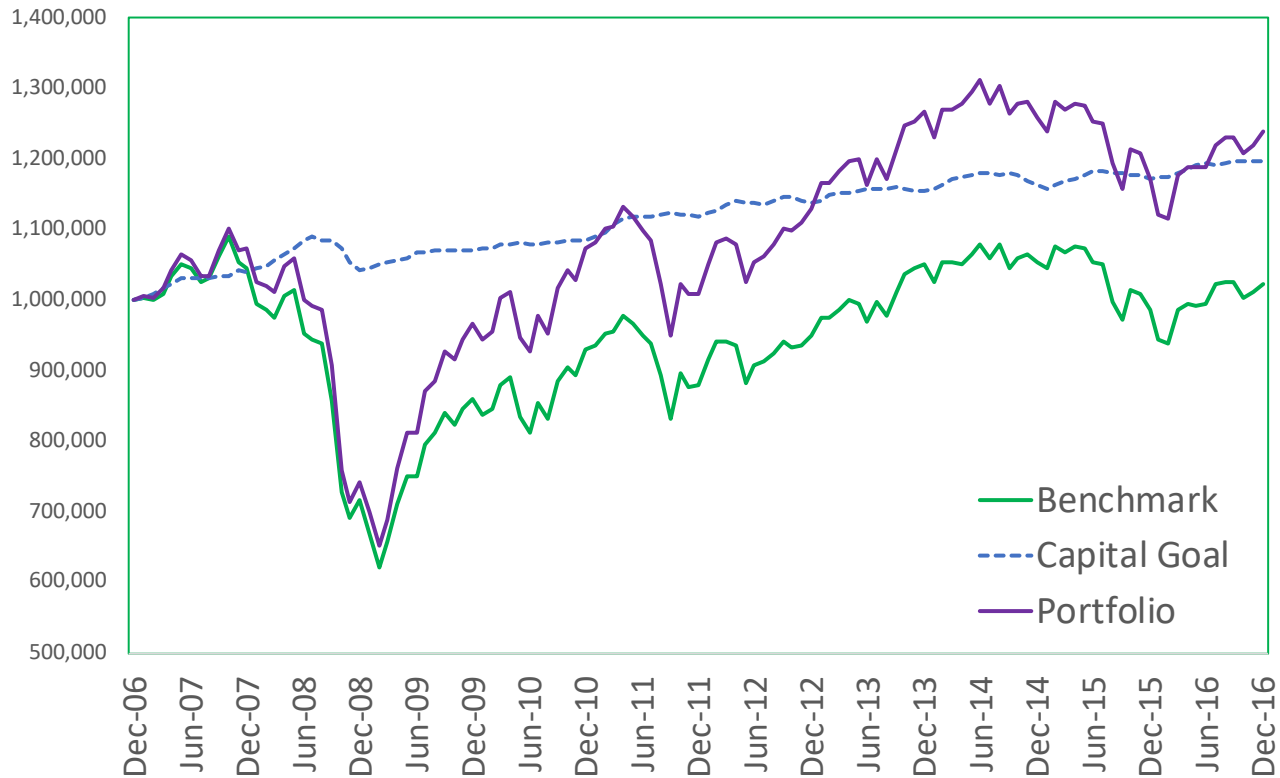
## Attribution of Spending Goal



Gap between the lines is the Active Benefit

- Active spending was more stable

## Attribution of Capital Preservation Goal



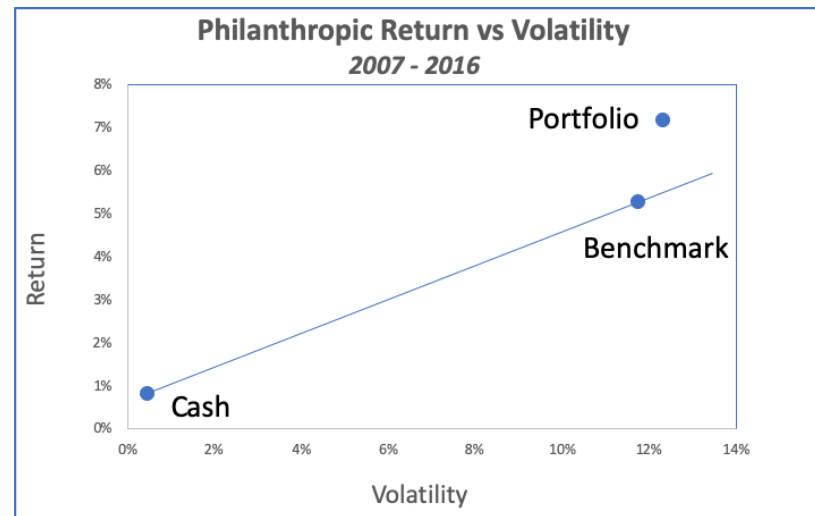
Downturn was inevitable;  
Second dip was less severe.  
Full recovery after six years  
(Passive strategy did not recover)

# Traditional Performance Review

	Portfolio	Asset Benchmark	Cash
<b>Return</b>	<b>7.15%</b>	<b>5.25%</b>	<b>0.80%</b>
Volatility	12.33%	11.76%	0.46%
<b>IRR</b>	<b>6.76%</b>	<b>4.79%</b>	
Beta	1.04	1.00	
Sharpe	0.52	0.38	

*What's missing?  
The Goals!*

*Interesting, but  
Irrelevant Detail*



*Benchmark comparison tells you nothing  
about meeting your goals.*

# Want to Present Compelling Client Results?

**Would you like to show your clients results that they:**

- *Understand*
- *Appreciate*
- *Get excited about?*

**It's easier than you think!**

*Please contact us for a consultation.*

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