How to find

THE RIGHT INVESTMENT ADVISOR FOR YOUR NON-PROFIT

A complete guide from starting the process to what to expect after your hire an advisor

ARMBRUSTER
CAPITAL MANAGEMENT

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What to know before you get started

Finding the right investment advisor for your nonprofit can be overwhelming, especially for selection committee members who don't have a strong background in finance or investment management.

important tip

Ideally, your selection committee will include board members with varied expertise, including those with limited financial or investing experience.

Balancing members with deep financial knowledge with others skilled in sales, marketing, ethics and social responsibility, fundraising, etc., ensures a broader perspective and encourages clarifying questions.

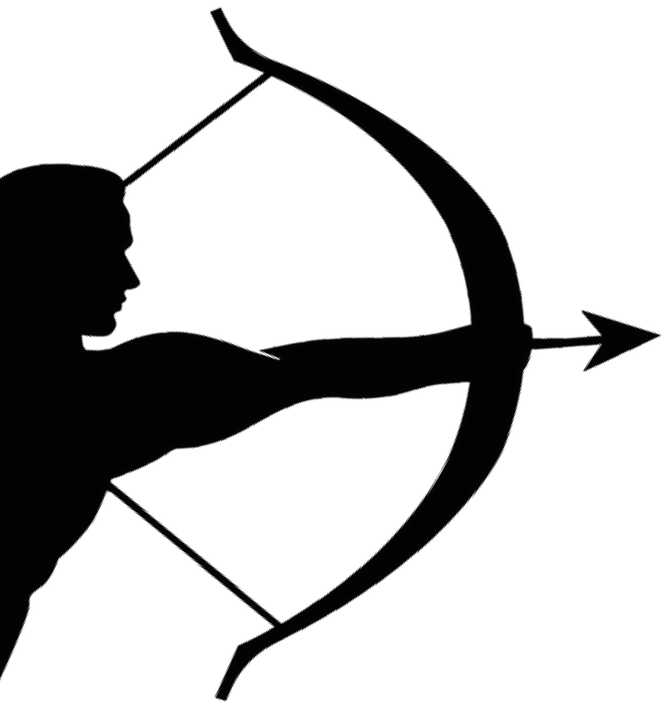
This guide aims to demystify the investment industry and help you confidently select an investment advisor.

Whether you're overseeing an endowment, a foundation, or a reserve fund, your goal isn't just to chase returns but to secure the long-term financial health of your organization. That way, you can continue to make the biggest impact possible.

What to know before you get started

We'll walk you through the essential steps - from identifying your goals and creating your request for proposal (RFP) to reviewing proposals and assessing important details like fiduciary responsibilities, investment philosophy, and fee structure.

By the end of this guide, you'll have a much clearer idea of what it takes to make an informed decision and select an investment advisor who aligns with your mission, values, and financial goals.

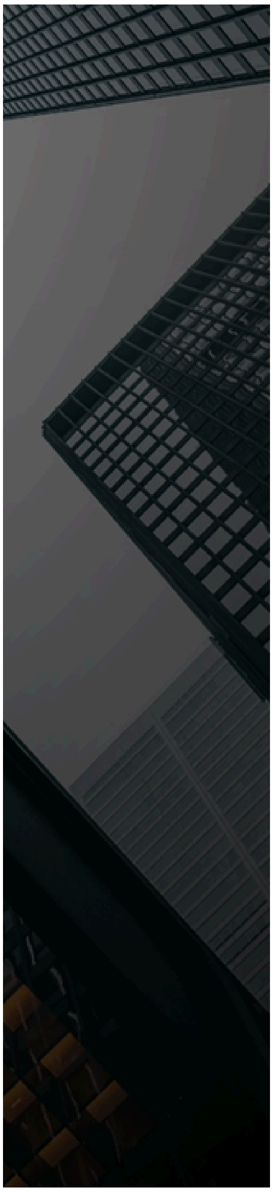


Identifying your goals and needs

Once you've formed your Investment Advisor Selection Committee, plan to meet and discuss your organization's goals before drafting your RFP.

The more clearly you define what an investment advisor can help you achieve, the easier it will be to identify firms worth interviewing and potentially working with.

Before you proceed, consider the following questions:



1. What are the organization's short-term financial needs? (*e.g., liquidity, upcoming expenses, capital projects, etc.*)

2. Do you have a required return target in mind for the organization's long-term goals? Have you considered how to balance current versus future needs?

3. Do you need professional financial guidance to reach your goals? Is financial education necessary for your board?

4. Do you have an existing investment policy statement or do you need help creating one?

Identifying your goals and needs

5 Do you understand industry standard fees? Do those fees reflect the value of working with an investment advisor?

6 How involved does your committee want to be in asset allocation and investment selection?

7 Are you aligned on an investment philosophy? Is there consensus about active management vs. indexation? What is your committee's stance on socially responsible investments?

Structuring your RFP

Consider your request for proposal (RFP) as an advertisement to attract qualified investment professionals. This is your opportunity to hire a financial partner who can help you advance your mission. Aside from the economic advantage of working with an investment advisor, these firms are part of your community and often represent future donors and supporters of your organization.

A well-structured RFP should request only the most relevant information, helping you efficiently identify the right investment advisor while weeding out the firms that don't meet your needs.

A strong RFP typically includes the following:

- Introduction to your organization
- Scope and type of services required
- Investment philosophy information and policy statement
- Budget or fee considerations
- Required qualifications (such as minimum assets under management)
- Submission requirements and deadlines
- Key questions (suggestions outlined below)

Structuring your RFP

Ideally, you'll already have a list of investment advisors to consider, and you can send your completed RFP immediately.

If not, consider reaching out to your local CFA society or chapter. However, we caution against relying solely on this method to attract qualified applicants, as it can inundate your organization with blanket responses from less reputable firms.

Questions to include in your RFP

Q1. What is the legal structure of your firm? (e.g., RIA, Broker-dealer, etc.)

Why this matters:

This is likely one of the most important questions you'll ask. We encourage everyone on the selection committee to understand the capacity in which the financial advisor will work as it has significant implications for your investments and the associated costs.

The ideal answer:

We recommend all nonprofits work with a Security and Exchange Commission (SEC) Registered Investment Advisor (RIA) who has a fiduciary duty to their clients.

Questions to include in your RFP

Terms to be familiar with:

RIAs have a legal obligation – a fiduciary duty – to act in their clients’ best interests and to avoid or disclose potential conflicts of interest. They generally use a transparent fee-only compensation structure.

Broker-dealers (BDs) do not have a fiduciary obligation. Since representatives are often incentivized to make decisions that benefit their employer, conflicts of interest with clients may arise. For example, some investment products come with ongoing payments for the brokerage firm and thus representatives can be more partial to recommending those products to clients.

Hybrid Advisors are broker-dealers who also register as RIAs. Rather than being the best of both worlds, this can create confusion among clients since it’s often unclear how they manage the dual nature of their sometimes conflicting roles.

A note on the importance of fiduciary duty

SEC Registered Investment Advisors assume a fiduciary role.

They are legally responsible for always acting in their clients' best interests. The Investment Adviser's Act of 1940 outlines a fiduciary's two main duties: the duty of care and the duty of loyalty. They are broad and apply to the entire advisor-client relationship.

Duty of Care

Advisors must provide advice that benefits the clients the most, ensuring the best execution of their transactions, and providing ongoing guidance and monitoring appropriate for their needs and the agreed-upon relationship.

Duty of Loyalty

Advisors must prioritize clients' interests ahead of their own. This includes avoiding conflicts of interest and disclosing potential conflicts that could affect the advisory relationship. According to the rules set forth by the Securities and Exchange Commission, "for a disclosure to be full and fair, it should be sufficiently specific so a client can understand the material fact of conflict of interest and make an informed decision whether to provide consent."

The above duties are enforceable by law under the Advisors Act, recognizing the nature of the relationship between investment advisor and client.

Not all investment advisors are fiduciaries; many act as fiduciaries occasionally, so you should ask about this when selecting one.

Questions to include in your RFP

Q2. Does your firm take custody of our account?

Why this matters:

This will help you understand who holds your money. Some firms manage your investments and also take "custody" of your funds. Unfortunately, the Bernie Madoff case famously demonstrates why separating management and custody is essential. Madoff was able to fabricate transactions and manipulate statements because of this gross conflict of interest.

The ideal answer:

Look for firms that do not accept custody of their clients' assets.

Advisors should use reputable third-party custodians to preserve the integrity of your investments.

By partnering with large national custodians like Charles Schwab, your investment advisor keeps your money more secure thanks to increased compliance and a decreased risk of fraud.

You should also be aware of additional fees for custodial services including trading commissions (which should be clearly outlined for you if they apply to your organization's situation).

Questions to include in your RFP

Q3: What Experience does your firm have working with nonprofit accounts?

Why this matters:

Nonprofits have special considerations that are much different from individual investment needs. Among those circumstances are governance requirements and compliance regulations, and you want to ensure you work with a firm that understands all these aspects.

The ideal answer:

Candidates should have a track record of serving nonprofit organizations.

They may reference the number of nonprofit clients they serve or the percentage of assets under management dedicated to nonprofit accounts.

**You may also ask for a list of references from other nonprofits the advisor works with.*

Firms with team members who serve on nonprofit boards often bring valuable experience in investment committees' operations, policy creation, oversight, and RFPs.

It's always valuable when your advisor can see things from both sides of the investment management relationship.

Questions to include in your RFP

Q4: Who will be involved in providing services for our organization?

Why this matters:
Firms may send senior representatives to pitch their services, then assign a less experienced team member once you've hired them. This bait and switch tactic is not uncommon.

The ideal answer:
Ask for bios of the representatives attending your meeting to confirm their expertise.

Ideally, the investment advisor responding to your RFP or attending the interview will also be the primary representative for your relationship with the firm.

If the firm works as a team, you can be introduced (with a short bio) to anyone else you might be interacting with.

Many firms have a separate customer service team that you might expect to help you set up your accounts or handle administrative and cashiering requests. Still, you should have full access to your investment advisor(s) for all other types of inquiries..

Questions to include in your RFP

Q5: What is your fee structure and what other costs are implicit in this process?

Why this matters:

There are many ways for an investment advisor to charge for their services and plenty of opportunities for additional expenses (like trading costs, travel fees, third-party managemet costs, etc.) to pile up. You also want to be on the lookout for fees (like setup, admin, reporting fees, and so on) that may be hidden where you don't know to look for them.

The ideal answer:

Expect full transparency and clearly outlined fees upfront.

When comparing firms, note that a higher headline fee may include everything, while a lower one might come with added expenses.

Firms that use an assets under management (AUM) fee structure, for example, should be able to tell you the exact percentage you'll pay. They should also explicitly state that your advisors will not be paid any additional costs at your expense. Some firms will guarantee their fee rate for a period of time (e.g., three years).

Questions to include in your RFP

Fee structures to be familiar with

1. **AUM**: a percentage of **assets under management** (typically how RIAs are compensated)
2. **Flat fees or fixed rates**
3. **Project-based rates**
4. **Product sales** (such as mutual funds and annuities)
5. **Transaction fees**
6. **Performance-based fees** (based on returns generated)

Questions to include in your RFP

Cost Control

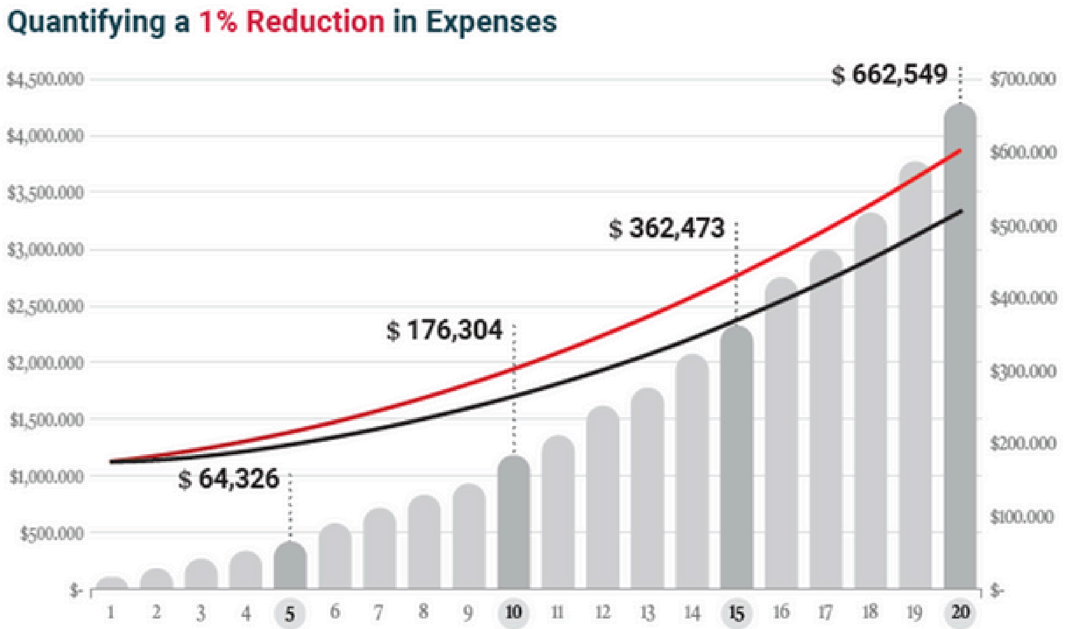
THE IMPORTANCE OF COST-CONTROL

Often overlooked, management fees, underlying investment expenses, and taxes can significantly impact your returns over time. Our approach focuses on minimizing these costs to maximize your net returns.

Cumulative Opportunity Cost (RIGHT AXIS)

7% Annualized Return (LEFT AXIS)

6% Annualized Return (LEFT AXIS)



Awareness of additional fees is critical because, as the chart shows, even a 1% reduction in expenses can significantly impact your returns over time.

Questions to include in your RFP

Q6: What is your investment philosophy?

Why this matters:

An investment advisor may take many different investment approaches, and this question is important for deciding whether they align with your organization's goals and are a good fit for its mission.

The ideal answer:

Whatever their response, we strongly recommend you take the time to understand your advisor's philosophy*, particularly around:

- Active management
- Passive indexation
- Factor-based investing
- SRI/ESG
- Alternative investments

*For those who'd like to learn about investment philosophies in depth, we invite you to visit our "Nerdy Investment Stuff" page on our website at www.armbrustercapital.com.

It's difficult to outperform the market through stock picking, sector rotation, and market timing. Therefore, you may want to avoid firms that engage in these activities.

Look for an advisor who helps their nonprofit clients set up broadly diversified, risk-targeted asset allocation plans as part of their investment policies and manages them through thick and thin. This approach has proven to maximize returns over the long haul.

Questions to include in your RFP

Q7: How would you improve your
Investment Policy Statement (IPS)?

Why this matters:

Your Investment Policy Statement guides the financial decisions for your assets so the advisor you work with can make choices that stay aligned with your mission. Many advisors won't comment on your IPS in their proposal unless you ask (so it's always wise to ask).

The ideal answer:

Because your IPS is critical to supporting your financial outcomes, you want to ensure it's extremely clear and detailed.

If an advisor comments on your IPS, be prepared for a critical evaluation and suggestions for things like tightening your asset allocation ranges to prevent advisors from having too much market timing flexibility. A good advisor will likely have granular insights and specifications for percentages in stock categories and appropriate benchmarks.

(We know these are the types of comments to expect because our advisors can't help but provide similar recommendations when we submit a proposal!)

Questions to include in your RFP

Investment Policy Statement

important tip

If you don't have a current IPS, change this question to ask if the firm will help you write one. Having an unclear or misaligned IPS can lead to donor mistrust. Therefore, your advisor should take the time to discuss risk tolerance, cash flow requirements, and ethical considerations before creating your IPS.

Introduce the section with a subheading

Q8: What is your benchmark selection?

Why this matters:

Benchmarking is often too broad or inappropriate – *see below* – which can lead to significant underperformance.

The ideal answer:

Look for an advisor who selects the most robust, industry-leading indices.

They should be weighted according to your IPS targets to create a benchmark that's difficult to beat and truly reflects the risks your portfolio incurs. The right investment advisor will commit to that benchmark over the long term to ensure continuity.

One trick used in the investment industry is picking weak benchmarks and changing them over time to make performance appear stronger than it is. For example, The Russell 2000 has underperformed the S&P 600 Index by 1.25% annualized over the past ten years (as of 12/2024), despite both being considered appropriate U.S. small-cap stock indices.

This is why, at the time of publication of this guide, it's not uncommon for firms to use The Russell 2000 as their small-cap benchmark.

Bonus: A common question you can skip

Can you provide 5 years of annual returns for the firm's stock, bond, and balanced accounts?

Why you should skip it:

Many organizations include this question by default, but the answers can be misleading.

Something to be aware of:

Most firms will attach a performance history record in response to this question, especially if they have strong historical performance.

Before you put too much stock into that record, we strongly advise you to consider the following points:

- Historical performance tells you virtually nothing about future performance. Studies show that “serial correlation” within the capital markets is relatively weak, (meaning the past is not an indicator of future performance).
- Past performance is often only strong due to market circumstances rather than unique skills. When the market environment changes, strong past advisors often underperform. Hiring and finding advisors on this criterion locks in the practice of buying high and selling low.
- Asset allocation can cause significant disparities in performance, making comparisons less meaningful.

Bonus: A common question you can skip

Rather than relying on historical performance, finance committees should focus on more relevant and sustainable metrics – such as costs, selecting an investment philosophy you can commit to over time that aligns with the organization, and the relationship and support you can expect from the advisory firm.

Deciding which investment advisors to interview

Since your Selection Committee comprises members with different areas of expertise, having each member review the incoming responses to your RFP will bring diverse opinions but should help you narrow down which investment advisors are worth your time to interview.

Appoint a committee member to create a summary with the most important considerations so you can quickly compare all proposals.

These considerations should align with the answers your committee documented from the questions under “Identifying your goals and needs.”

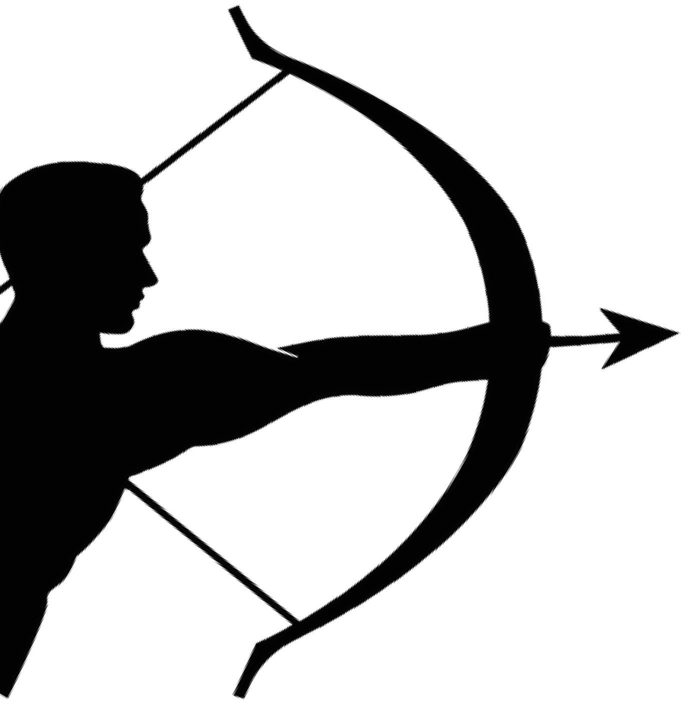
As you’re reviewing each proposal, consider:

- **Who answered your questions most carefully?** You may not want to work with someone who avoids complex topics or appears unable to answer straightforward questions.
- **Whose investment philosophy most closely aligns with yours?**
- **Who has a fiduciary responsibility to their clients?**

Deciding which investment advisors to interview

Once you've narrowed your choices to 2-3 investment firms, invite them for an interview with your Investment Advisor Selection Committee.

As you sit through each firm's presentation, remember that (as hard as it is) you must separate the representative's personality from the nuts and bolts of their investment style. It's very tempting to hire the person you like best, but it's not their personality that ultimately dictates how well they will serve your organization.



What to expect once you hire an advisor

After you've chosen the investment advisor that's right for your nonprofit, you can expect your Finance Committee or board will likely meet with them to discuss how to best help them understand the organization's goals and operating budget.

Any good investment advisor wants to understand how the organization will use the portfolio so they can make recommendations as to how the funds should be invested.

While due diligence is occurring, they'll help prepare new account paperwork and help you open an account at a custodial firm.

Your board officers will then sign the documents to open an account and transfer funds.

Next, your investment advisor will help you prepare or edit your IPS and establish asset allocation targets appropriate for your long-term goals.

After this is approved and the assets transfer to the new account – congratulations!

It's time to start investing and get your nonprofit organization closer to the financial goals identified at the beginning of this guide.

What to expect once you hire an advisor

A note on reporting:

Your advisor should be happy to meet with your committee, in person or electronically, whenever you require them to, and respond to questions or concerns as they come up.

They should provide you with reports and automatic access to custodial statements.

Your advisor should be able to set you up so that you can access your account information 24/7 via a client portal.

Who we are

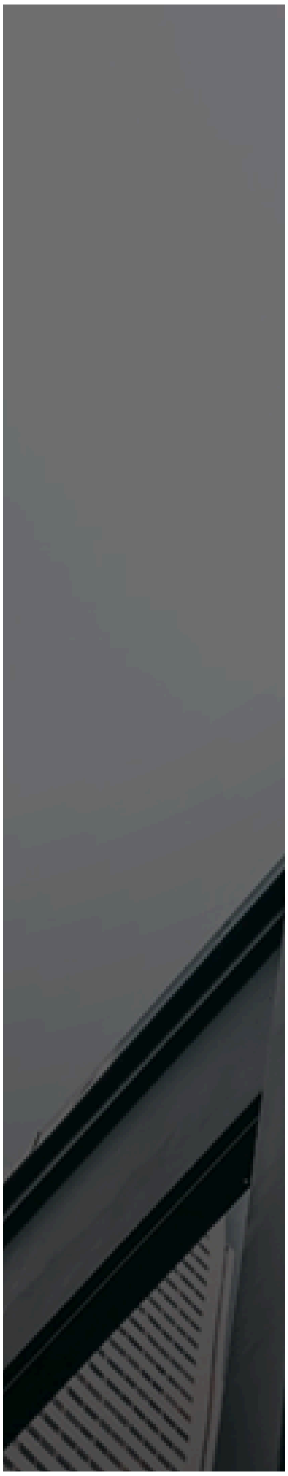
Armbruster Capital Management is an independent, employee-owned wealth management firm located in Pittsford, New York. We offer investment management services to high-net-worth individuals, not-for-profit institutions, and corporate clients based on tested academic and quantitative research. Founded in 2009 by our CEO, Mark Armbruster, our firm manages assets for hundreds of clients in 27 states.

Investing with Integrity

As an SEC Registered Investment Advisor, Armbruster Capital assumes a fiduciary role. This means we are legally responsible for always acting in our clients' best interests and must put their interests ahead of ours.

There are no other fees for our services, and we receive no additional revenue beyond the explicit fees you pay us.

The Armbruster Capital Management Approach



We avoid the pitfalls of market timing and active stock selection, focusing instead on broadly diversified, risk-targeted asset allocation plans. We leverage index and factor-based ETFs to capture market returns while mitigating risk and incorporating alternative investments to diversify portfolios further. Armbruster Capital Management offers a competitive fee schedule that is often half that of our competitors and we strive to use low-costs funds to implement our strategies.

Our investment management approach is designed to deliver consistent, long-term results, helping you confidently achieve your financial goals. Most importantly, we understand that your financial situation and goals are unique, and we are committed to providing a personalized solution and service to address your specific needs.

Let us show you how Armbruster Capital Management can guide you through market fluctuations while maximizing your potential for financial success!

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More details and in-person consultations are available for organizations with $1,000,000 or greater in investable assets.

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