The Colony Group

PERSPECTIVES
Institutional Series

IMPORTANT CONSIDERATIONS WHEN TRANSITIONING AN INSTITUTIONAL PORTFOLIO

Transitioning any portfolio requires close attention to, and serious consideration of a number of relevant factors. Changing advisors, custodians, and other service providers can present unique challenges to institutions. Typically administered to exist in perpetuity, institutions require a detailed comprehensive plan to minimize potential disruptions and maintain alignment with its long-term objectives.

What are reasons an institution might consider changing advisors, or not?

Andrew Vogelstein: While some claim that considering alternatives to current advisors and other service providers on a regular basis represents good governance, we would argue otherwise. If the mission and long-term financial needs of an institution - as stipulated in its investment policy - are being consistently and fully met, why make a change? Stated more simply: "if ain't broke, don't fix it". That said, instances that may require changing an organization's advisor may include: the departure of key personnel; an apparent lack of fiduciary obligation; an increased need for more comprehensive services; poor communication; and poor investment performance are all potential precursors to initiating a change.

What is involved in changing investment advisors?

AV: Typically, an institution will initiate a Request for Proposal (RFP) process, whereby a description of the mandate and related services will be communicated to a select number of candidates. The RFP will also include multiple questions to specifically identify necessary qualifications and capabilities of each candidate. After careful review of submissions, in-person interviews occur, followed by final selection. The institution and new advisor then execute an investment management agreement. The process includes an immediate review and amendment of the institution's investment policy statement, if necessary, and a re-underwriting of all portfolio investments. A smooth and effective outcome will depend significantly upon the active cooperation and collaboration of the new and legacy advisors for the benefit of the institution. Once complete, and consistent with an institution's strategic asset allocation policy, recommended redemptions, new account openings, and new investments can take place. Importantly, a primary focus while transitioning investments should be on maintaining the desired asset allocation and market exposures as stipulated in the institution's investment policy.

How long should transitioning an institutional investment portfolio take?

AV: In our experience, the transition timeline can differ depending on the current structure of an institution's portfolio. While infrequent, if the portfolio is predominantly cash, the transition timeline is relatively short; however, if it is fully invested across multiple asset classes - including illiquid equity and fixed income alternatives - then a complete transition can take multiple quarters. Again, the primary concern throughout any transition process is maintaining the desired asset allocation and market exposures as stipulated in an institution's investment policy.

What additional steps can an institution take to ensure a smooth transition?

AV: The bottom-line: Collaborate and communicate! Clear and concise communication with all of the institution's stakeholders will facilitate and expedite a smooth transition and avoid unnecessary and costly delays and mistakes. Beyond informing members of its community of the change and motivating factors, the institution should notify the legacy advisor of the decision, the expected date of the transition, and provide contact information for the new advisor. The institution, along with the legacy advisor, should advise custodians, banks, and underlying investment managers of the change, including any shifts in discretionary authority. As the transition process gets underway, the incoming advisor should continually and frequently communicate its progress with the institution to avoid misunderstandings and unnecessary delays. Again, the key to success is a collaborative effort with clear and concise communication amongst all involved parties.

Philosophically, it is important to remember that while institutions are structured to exist in perpetuity, those individuals entrusted to carry out its long-term mission are finite beings, often with a commensurate perspective. Change for the sake of change is not a value-added proposition; however, sometimes it is necessary. When an institution's financial needs are not being met, and therefore its long-term mission is at risk, a change is absolutely necessary.

ANDREW VOGELSTEIN

President, Institutional Advisory Practice

As an investment professional, Andrew serves as President of Colony's Institutional Advisory Practice. Andrew and his team provide a full spectrum of OCIO solutions on a discretionary and non-discretionary basis to institutional for-profit and nonprofit clients and large family offices. In addition to working with clients to create, amend, and improve their governance structure, investment policies and strategic asset allocation, Andrew's team takes responsibility for manager selection and research across all asset classes. Andrew is also a member of Colony's Executive Committee and Investment Committee.

Andrew's career in the financial services industry spans more than 30 years. His knowledge and experience across various asset classes and securities, are instrumental in advising clients, and constructing and managing their portfolios. Andrew served as the CEO and a partner at New Providence Asset Management prior to merging with The Colony Group in 2021.

He earned his Master of Business Administration from the New York University Leonard N. Stern School of Business and a Bachelor of Arts from University of Colorado.

CONTACT

avogelstein@thecolonygroup.com

(646) 292-1214

www.thecolonygroup.com