



## BRISTLECONE PHILANTHROPIC INITIATIVE: FAQ

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### 1. Bristlecone just announced a new initiative to benefit philanthropic organizations. Would you please describe it?

For tax-exempt charitable organizations<sup>1</sup>, Bristlecone is waiving its management fee on the first \$1 million of assets under management. Additionally, the current 25% reduction to our customary fee schedule on amounts above \$1 million is maintained. To make the initiative as broadly accessible as possible, we are also reducing our standard \$2.5 million account minimum to \$1 million for eligible entities. Although big foundations make the headlines, we know that the majority of charitable organizations are small with limited resources. We welcome all eligible organizations, but we wanted to make sure to structure the initiative so that it could benefit small and medium sized institutions to the greatest extent possible.

### 2. What will it mean practically to a charitable organization?

Our standard annual fee of 1% on the first \$1 million of assets is \$10,000, whereas under this initiative, our services are free. On a \$5 million account, the annual fee under our current schedule would be \$46,250 (assuming no growth in the account). Under this program, it is reduced to \$22,688, a savings of over \$23,500 per year.

All else being equal, lower fees mean higher net investment returns. The 2006 National Association of College and University Business Officers (NACUBO) Endowment Study documents a direct correlation between endowment size and performance. Compared to the smallest endowments (those with \$25 million or less), endowments with more than \$1 billion in assets garnered returns nearly 4% higher annually over the last ten years. This gap is attributable to a number of factors, including differences in asset allocation, access to better managers, *and* lower fees. That performance gap impacts directly an organization's ability to fulfill its mission. While our initiative can't address all the underlying reasons, we do think it begins to even the playing field, particularly for smaller and mid-sized organizations.

Ironically, many investment committees of foundations and endowments, in their search for higher returns and lower volatility, are looking increasingly to alternative investments and hedge funds. These investment vehicles can carry overall expenses three to six times higher than what we are offering, typically charging at least a 1% fee and taking 20% of profits earned, a structure that, even with average returns, might cost 2% - 3% annually before transaction expenses. With more and more donors granting gifts under the condition that they be restricted to program use, the management fee savings that Bristlecone is offering can ease pressures on a charity's general operating budget.

### 3. Is Bristlecone's investment process suitable for foundations and endowments?

We believe so. Clearly, lower fees would matter little if our process was not suitable for the investment objectives and constraints of foundations and endowments, or if our results were not competitive. Here's why we think our services do make sense:

<sup>1</sup> To establish eligibility, a prospective client must present proof of IRS Qualified Public Charity status and sign Bristlecone's investment management agreement (no sub-advisory mandates).



- *Long-Term Horizon* – Bristlecone’s consistent, disciplined investment process is geared for delivering results over the long-term. Foundations and endowments, whose missions may cross generational lines even into perpetuity, match our focus well;
- *Greater Transparency* – In an era when board members of foundations and endowments are coming under greater scrutiny, the transparency of separate account management is a plus compared to mutual funds and, particularly, hedge funds. Transparency makes it easier for board overseers to evaluate risk and understand the underlying process and investments;
- *Competitive Returns*<sup>2</sup> – Our investment process has produced historical returns for our average client that have exceeded those of the S&P 500 for every quarter-ending 5-year rolling period since April 1<sup>st</sup>, 2000—our track record inception. Yet, looking at standard deviation and relative performance during down markets, we’ve achieved those returns with lower volatility and less downside than the broad market.

#### 4. Can you expand on why lower downside risk matters?

Less fluctuation, especially to the downside, in the value of their assets should be of special concern to foundations and endowments for a number of reasons:

- It is important that spending outlays be as consistent as possible so as not to disrupt the organization’s programs;
- Because of spending outlays, an organization’s ability to meet its long-term mission is particularly vulnerable to market downturns. Outflows during such periods can permanently erode an institution’s asset base;
- Less volatile returns tend to lead to better investment decision-making by clients. Many clients don’t achieve a manager’s return due to poor timing of decisions. This is especially true when a manager’s returns are highly volatile. Lower volatility makes it more likely clients will actually achieve the benefits of long-term compounding.

#### 5. Besides the obvious philanthropic impact, were there other reasons behind this initiative?

The primary motivation behind this initiative is to give Bristlecone’s partners and employees a way to meet their philanthropic goals that avoids the potential conflicts of interest associated with working for an investment firm. It also gives us a manageable means of contributing our time and expertise to these charitable organizations. Finally, it neatly meshes with Bristlecone’s goals, too. We are proud of our professional achievements and we hope this initiative will increase awareness of our services not only within the foundation and endowment community, but also among those who serve as their advisors and consultants.

#### 6. How can people get more information?

Everyone at Bristlecone is genuinely excited about this initiative and committed to its success. You may find general information about Bristlecone Value Partners at [www.bristlecone-vp.com](http://www.bristlecone-vp.com). If you have further questions about this initiative, please contact Erik Luchs, Director of Business Development, at (310) 806-4141, ext. 18, or [philanthropy@bristlecone-vp.com](mailto:philanthropy@bristlecone-vp.com).

<sup>2</sup> PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. For complete performance information, including fees and expenses, please contact client services at (310) 806-4141 or email [clientservices@bristlecone-vp.com](mailto:clientservices@bristlecone-vp.com).