

A Changing Environment Demands Discipline and Focus

The Case for Outsourcing Endowment Operations



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Outsourcing Operations Works for a Variety of Fiduciaries

An Increase in Accuracy, Focus, and Time Management Frequently Follows

The last several years have been challenging for fiduciaries with volatile returns and spending rates that have outpaced inflation. Despite the fiscal 2017 average return of 12.2% for US college and university endowments, the 10-year return fell from 5.0% to 4.6%, according to the NACUBO-Commonfund Study of Endowments.¹ That's well below the median 7.4% that institutions say they need to maintain purchasing power after spending, inflation, and investment management costs. And with stocks at record highs, bonds at near-zero rates, changes in tax and charitable giving laws, and looming political and economic uncertainty, near-term returns are as unpredictable as ever.

As performance of traditional asset classes has lagged, endowments and foundations have sought out the return potential of alternatives — hedge funds, private equity, venture capital, and an array of real assets. Yet these investments also entail challenges, as staff must devote more time to monitoring vehicles that are often less than transparent, hard to benchmark, and illiquid. There's a huge gap, too, between performance of the top tier of alternatives (often available only to the very largest

investors), the middle, and the bottom, as evidenced in the NACUBO survey by the returns reported by small and large institutions, ranging from 5% to 10%.

All this is happening at a time when stakeholders — including trustees, college students, and alumni — are demanding increasing transparency. In many cases, they are asking for both investment returns and positive social impact, whether through impact investing, ESG, social screening, or divestiture.

And finally, a relentless pressure on overall expenses means that many foundations, endowments, and family offices are doing more with less. Staffs are leaner. Hours are long. Legal and compliance obligations are complex. The cost of making mistakes has never been higher.

If you're looking for a way to reduce the burden on you and your team while ensuring that your fiduciary responsibilities are met, it may be time to consider outsourcing operations. Xofficio provides a full-service outsourced investment operations platform that can simplify your workflow and free you to focus on core responsibilities.

¹ 2016 and 2017 NACUBO-Commonfund Study of Endowments®

How Outsourcing Works

A Passion for Operations

The team at Xofficio loves the work that drives your in-house staff crazy. We are detail-oriented, meticulous, focused, and can handle most routine operational tasks accurately and in a timely manner without involving your team. When we come upon an unexpected issue or exception, we will communicate with you immediately by phone or email to bring you up to speed and get your input on how to handle unusual items.

Mastering Processes

We bring best practices developed through client relationships and depth of experience in the industry to your organization, adapting what we've learned to your specific situation. Well-defined processes govern how we handle new investments, capital calls, distributions, and performance reporting. By implementing proven processes and documenting them extensively, we help you meet your fiduciary responsibilities and promote excellence across your entire organization.

Tech Enabled

We can help you design, update, or fine tune the technology platforms that support your organization. Our team is experienced and flexible, using the technology tools that you prefer to deliver customized solutions.

"The more our investments diversify across asset classes, geographies, and complexities, the more we need Xofficio so we are confident in our cash flow projections and the accuracy of our reporting."

– Endowment CIO

10 Reasons to Outsource to Xofficio

Why partner with Xofficio for timely, accurate, hassle-free operational support of your investment organization? There are a lot of good reasons.

- 1** *Engage top-tier operations professionals whose passion is details.* The average operations industry experience at Xofficio is 11 years among staff and over 20 years among management. With operations as the career path and sole focus, our team members master the processes and extremely detailed work of operations and reporting.
- 2** *Right-size your team for cost optimization.* The average foundation or endowment has just over five (5.2) staff members, according to the Callan 2016 Cost of Doing Business Survey, including 3.3 people who are wholly dedicated to investment duties and 1.9 who have other responsibilities as well.² What if you could offload non-core tasks like performance reporting, cash flow coordination, and recordkeeping to an experienced partner, trimming your headcount by one or more individuals or redirecting their efforts to investment duties?
- 3** *Focus most of your time on investments.* The smartest investment professionals want to spend their working hours making investment decisions, not confirming wire instructions or reconciling cash reports. Outsourcing can streamline workflow so that your team can concentrate on managing investments.
- 4** *Offload tedious detail-oriented middle-office chores.* Your in-house administrative staff wears a lot of hats – in addition to creating reports, communicating with service providers, and reconciling data, they may also have other non-administrative duties. By outsourcing, you can take the burden off overworked staff and reduce the chance of errors.
- 5** *Increase leverage with a client advocate.* Xofficio has experience with different types, sizes, and structures of clients and has relationships with numerous accountants, administrators, prime brokers, and custodians. We have seen, experienced, and assisted in creating many cross-provider best practices. Armed with this knowledge and experience, we can bridge multiple service providers to create new processes for our clients (and perhaps for their service providers) that we have seen, built, and successfully helped manage. This depth and breadth of operations and related experience has been earned through our years in service and the diversity of our clients.

² 2016 Cost of Doing Business Survey, Callan Associates, November 2016

10 Reasons to Outsource to Xofficio *continued*

- 6 *Meet your fiduciary requirements with systematic, well-documented processes.* In fulfilling your fiduciary duties, documenting how you make and carry out decisions is almost as important as making the right decisions. Xofficio provides a seamless interface between your investment staff and your custodian, following well-defined processes and retaining necessary documents to support your fiduciary role in investment manager selection and performance monitoring.
- 7 *Minimize errors through meticulous reporting.* Even if reports are produced on time it is frustrating if the data contained in them are not accurate. Day-to-day oversight of the key aspects of an endowment's operations (cash flows and valuations) and strict adherence to process and controls enable Xofficio to produce accurate and timely reports with confidence.
- 8 *Configure the technology to support your mission.* Most institutional investors use a variety of technology platforms, which may or may not communicate with each other effectively. Xofficio will work with you to create an integrated, comprehensive technology solution that fits your organization's needs and goals.
- 9 *Monitor illiquid assets.* Having a centralized process for allocation status is critical for managing the timing of capital calls as well as capital that is committed, unfunded, and partially committed. Data that is easily accessible creates efficiency and opportunities to achieve additional performance.
- 10 *Improve predictability of report timing.* As expectations continue to rise among constituents, it is an advantage to be able to have predictability when reporting can be shared. Xofficio has deep insights into custodian processes, how accounting standards relate to performance, and the availability of data. This goes into the process, customizing performance composites and reports to reflect the investment team's needs, on a regular monthly schedule.

Xofficio Services

Our team works together to make sure operations run smoothly, with controls in place to ensure that each aspect of your relationship is overseen by someone with experience. This team is in continual communication with all parties involved in your endowment – your own investment professionals, external managers, custodians, and any other service providers. You'll be apprised of any issues that arise but won't have to bother with day-to-day operational functions. That way, you and your team can focus on investments while still ensuring that data used for reporting and decision-making purposes are as accurate as possible.

- ✓ *Cash Flow Processing.* Reconcile bank cash balances daily; coordinate and direct cash flows, including confirming validity of revised wire instructions; ensure payments are made on time and incoming wires are received as expected; notify client when cash balance is below client-defined thresholds.
- ✓ *Accounting Oversight.* Independently reconcile transactions and valuations with the custodian/administrator; review in detail accruals, financial reports, and investor statements prepared by custodian/administrator.
- ✓ *Performance Reporting.* Prepare customized performance reports, reconciling manager returns to those calculated by the custodian/administrator; prepare other client reports, working closely with investment staff to determine deliverables and schedule.
- ✓ *Document Management.* Post documents received from managers and any supporting documents for valuations or transactions to a web-based electronic archival system which client may access directly.
- ✓ *Service Provider Relations.* Oversee the custodian/administrator relationship; work closely with client on audit, tax, and compliance relationships.
- ✓ *Audit and Tax Support.* Assist staff with audit requests and data required for tax preparation, such as drafting audit confirms, providing valuation and transaction support and documentation, maintaining manager contact lists, tracking levels, and collecting and providing K-1s to staff or tax preparers.

Onboarding Your Outsourced Solution

Our onboarding process takes about six to eight weeks from start to finish and has three main stages.

Establish Client Preferences

We meet with you to determine exactly which services you wish to outsource, how you want to communicate with us, how you'd prefer to structure and format performance reports, and how often you want to receive cash reporting.

Provide Data

You provide critical information to us, including key contacts within your organization and at service providers (e.g., your custodians and asset managers) your current custody agreement and fee schedule, online access to your bank accounts, your most recent performance report, and historical performance data. If possible, we also like to receive a record of historical cash flows for private partnerships as well as electronic copies of all existing LP agreements.

Set Up Relationships

We then work closely with you to coordinate a transfer of middle-office responsibilities, introducing ourselves to your custodian and asset management partners and establishing access to their systems. During this period, we will draft cash flow and performance reports for your review.

“Adding partner-level operations professionals on an outsourced basis minimizes distractions while increasing the quality and confidence of our reporting.”

– Endowment CIO

Xofficio Is Your Partner

Founded in 2007, Xofficio provides comprehensive middle-office services for foundations, endowments, and family offices. The Xofficio team has extensive experience combining various sources of data into clean, concise, yet comprehensive portfolio analysis and performance reports.

Today, the Xofficio team draws on this pioneering experience and a relentless attention to detail to provide timely and accurate reporting to clients.

Xofficio's Team

Esther Cash is founding president of Xofficio. Prior to Xofficio, Esther was vice president and CFO of The Investment Fund for Foundations (TIFF). In her 13 years at TIFF, she was instrumental in establishing and overseeing the operations of TIFF's mutual funds, hedge funds, private equity funds, realty and resources funds, and other programs designed to meet the investment objectives and spending needs of non-profit organizations. She was also closely involved with TIFF's strategic development and educational initiatives. Her previous experience includes operations, administration, and data management responsibilities at Grantham, Mayo, Van Otterloo & Co. (GMO) and Cambridge Associates, Inc. Esther earned her BA in economics with honors from the University of Virginia.

Kerri White joined Xofficio in January 2007 as vice president. Kerri previously worked at Windhorse Group, a family investment office, where she assisted with all aspects of the office's operations. This work included coordinating operations with the fund's administrator, reconciling positions and performance, reviewing limited partner reports, assisting with the annual audit, producing the annual report, and supporting the family foundation's activities. Her previous experience includes over 10 years with The Investment Fund for Foundations, where she oversaw the operations of its absolute return vehicles as well as its private equity and realty and resource partnerships. Kerri earned her BBA in management from James Madison University.

Stacy Benefield joined Xofficio in January 2017. She was previously the manager of operations for Windhorse Capital Management, where she was involved in all non-investment related activities with an emphasis on investment operations, compliance, and data management. Prior to that, Stacy spent seven years at Investure, where she guided all non-investment related functions, including performance and regulatory reporting, financial audits, transaction processing, and cash forecasting. Stacy earned her BS in accounting and real estate from DePaul University. She is a CPA, registered in the State of Illinois.

Professional Staff

Kim Noe joined Xofficio in January 2007. Her previous experience includes 11 years with Silvercrest Asset Management Group, where she assisted in all aspects of the office's operations. Kim also worked for 15 years as a paralegal in the areas of product liability, corporate, and probate law. Kim earned her BS in legal studies from Illinois State University.

Mike Orebaugh joined Xofficio in March 2010. Mike worked in the restaurant industry for over 10 years as a bartender and international trainer, where he was responsible for opening and organizing new stores in Buenos Aires, Argentina, and Panama. He earned his BA in history from Wake Forest University and his Masters degree in accounting from the University of Virginia.

Mary Page joined Xofficio in January 2017 after nearly three years at Windhorse Capital Management as a document manager. Prior to joining Windhorse, Mary worked for seven years at Investure, where she had a variety of duties including document management and tax support. Prior to Investure, Mary worked as an investment analyst in the endowment offices for both the University of Virginia and the University of Michigan. Mary earned a BA in economics from the University of Michigan. She holds the Chartered Financial Analyst designation and is a member of the CFA Institute.

Bob Seaner joined Xofficio in February 2007. His previous experience includes 13 years with The Investment Fund for Foundations, where he was responsible for all capital equipment, network administration, technology development, and oversight of the technology team. Prior to TIFF, Bob worked as a computer consultant and network engineer for a Charlottesville-based computer company. He earned his BS in biology from Drexel University.

Karen Wayman joined Xofficio in July 2012. Her previous experience includes seven years at BB&T Barger Insurance Services, where she was in Employee Benefits Account Management. Karen also worked at Blue Ridge Planning Services and American Express Financial Advisers. She earned her degree in computer management from SUNY Delhi.

Meet the Challenges of a Changing Environment

If you're a fiduciary of an endowment, foundation, or family office, your job isn't getting any easier. From trying to earn competitive returns in a low-yield, fully valued market to incorporating hard-to-value illiquid assets into your strategy to providing full transparency to stakeholders, you balance a lot of jobs. Why not offload the least satisfying, most time-consuming middle-office tasks to professionals whose passion is operational efficiency? Let Xofficio do the heavy lifting on operations so that you can concentrate on more strategic work while ensuring accuracy and timeliness in all the functions that support you.

For more information about how Xofficio could help your organization, contact us today at:

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