



For the Institutional Investor

Frequently Asked Questions

FAQs

How long has RPJ been providing Investment Advisory Services?

The firm registered with the U.S. Securities and Exchange Commission in 1984. The principals collectively have over 85 years experience in financial and investment management. The firm embraces its role as a fiduciary and is among the oldest fee-only firms in the Washington, DC metropolitan area.

How would you best describe the services you offer?

We offer comprehensive financial planning and investment advisory services as fiduciaries.

- a. Our comprehensive financial planning services for institutional clients may include the creation, review, updating and monitoring of Investment Policy Statements, investment portfolios, and cash management, as well as special needs related to fiduciary education, succession planning and investment management training.
- b. Our investment advisory services are rooted in our status as fiduciaries. As fiduciary advisors, we have legal obligations that non-fiduciary advisors do not have. We must put our clients' best interests first, disclose any actual or potential conflicts of interest, treat all client information in strict confidence, and, generally, adhere to the highest ethical standards managing client financial affairs. Furthermore, we are only compensated through our clients' fees. This means we do not receive any compensation other than our client fees. We do not receive commissions, fees, or bonuses from the investment recommendations we make from any third party.

What is the RPJ investment philosophy?

RPJ's investment philosophy is derived from firmly held beliefs regarding the economic and investment environment and the threats and risks that can hinder returns. Our philosophy is based on three major principles. We believe: (1) wealth is best created through long-term participation in the global capital markets, (2) asset allocation across and within asset classes generates maximum returns for a given level of risk, and (3) minimizing expenses through passive strategies is a prudent course of action. The firm strives to reduce and manage its clients' risk exposure in the capital markets. These are central tenets of Modern and Post-Modern Portfolio Theory.

What is Modern Portfolio Theory?

Modern Portfolio Theory was developed in the 1950's. It states that an investment portfolio should be broadly diversified in order to achieve the maximum return for a given level of risk. Diversification (aka asset allocation) across different asset classes AND within asset classes significantly reduces the risk within an investment portfolio. The overall risk of loss is reduced, because a loss in any single investment has a smaller impact on the total. There have been many studies conducted since the 1950's that have demonstrated this theory as the most prudent investment approach.

Post-Modern Portfolio Theory (PMPT) was developed in the late 1980's. It expanded upon the original model for asset allocation by refining the way risk is defined. Instead of using "standard deviation" as the risk parameter, PMPT uses "downside risk optimization." The resulting impact is a portfolio of diversified assets that seeks to preserve the capital of the investor, deliver the investors minimal acceptable return (MAR), and reduce the risk of achieving overall returns below the MAR.

How are RPJ's Investment Advisory Services different from those I would receive from other financial services firms?

We are exclusively registered as an Investment Advisor with the SEC. We are not registered as a brokerage firm with FINRA (formerly NASD). We only accept compensation in the form of fees from our clients. We affirm our fiduciary duties to our clients in all the services we offer. These are the key attributes which distinguish RPJ from large financial services firms.

Additionally, after 24 years registered with the SEC, we feel we know of other attributes that our clients appreciate. First, we believe clients appreciate that we take time to look at their total financial picture and investment policy as a basis for making investment recommendations. Second, we believe clients like that we are not commission-based sales brokers and we do not spend time trying to "sell" them products. Instead, we offer recommendations that can help clients meet their investment and financial goals that are based upon firms we have evaluated, have a track record and offer funds that support achievement of those goals. Third, we believe clients like the fact that we are "fee only" and that we are fiduciary advisors, as opposed to brokers, who are not fee only and whose interests may favor their company rather than their clients.

What annual return can I expect?

There are no guarantees to investing. Therefore, we would never guarantee any return on an investment portfolio. No firm should. Doing so is prohibited by the SEC. Historically, the financial markets provide an overall rate of return (over time) which justifies investors entrusting their assets to them. Real rates of return are impacted by the effects of inflation, taxation, and other investment expenses. At the same time, strong consideration must be given to the preservation of capital. That is to say, minimizing risk of loss is a fundamental guiding principle. History has shown that investing in a well-diversified portfolio can increase returns and manage the volatility (risk).

Can my foundation achieve the same investment return by simply investing our assets in Exchange Traded Funds (ETFs)?

Exchange-traded funds are an investment vehicle that may serve as an important component of a fully diversified portfolio. We do not consider them to be a stand-alone alternative in the allocation process.

Are money market funds a safe place to keep our cash?

Money market funds (MMFs) are relatively safe, but cannot be considered guaranteed and without risk. MMFs are typically invested in treasury bills, short-term investment grade corporate bonds and other government or agency-backed securities. The yields of MMFs often exceed the yields of guaranteed investments like bank savings accounts and CDs. Even though MMFs offer safety of principal they could be considered risky if your goal is preservation of purchasing power.

How do RPJ fees compare with brokerage firm fees?

We believe our fees are often lower than the fees of brokerage firms, comparing our range of fees with theirs. Our fee range starts at 1 percent and decreases to .4 percent or less with larger accounts. According to a recent study by the Rand Corporation for the SEC, as it concerned brokerage fees, “Fees that are based on account size generally range from 1 to 3 percent of assets, whereby larger accounts are subjected to lower fees, and wealthier clients are often in a position to negotiate the fee rate.” *

** Investor and Industry Perspective on Investment Advisors and Broker-Dealers, December 2007*

What does RPJ believe are the special investment needs of private foundations?

Private family foundations have several priorities that demand the careful attention of their Board. First and foremost, members of the Board, as fiduciaries acting in a position of trust, must be prudent and faithful stewards of the foundation assets. They must also ensure that their fiduciary diligence and care is preserved and passed along as part of their succession planning for future trustees. RPJ stays up-to-date with the regulations and statutes that define the conduct of a fiduciary and assists clients with understanding these important rules.

RPJ works diligently with foundation clients, as objective advisors, to document a prudent investment process in an Investment Policy Statement. We then are able to create, implement and monitor an investment strategy that best meets the foundation's overall needs and supports its sustained giving objectives.

RPJ understands that a foundation has to carefully manage their investment portfolio and operating budget to meet the annual 5 percent distribution requirement, allow sufficient funding for effective operations, and account for the effects of inflation while at the same time planning for sustained giving in perpetuity.

What does RPJ believe are the special investment needs of non-profit organizations?

Non-profit (tax-exempt) organizations have a very diverse set of goals and objectives. Some accumulate financial assets in excess of annual needs over time. Some benefit from the generosity of their constituency with endowment funds that provide ongoing support. Others make use of accumulated assets to support current needs.

Whatever the source or the need, these financial assets, when prudently invested, can benefit the organization in future years by providing operating income that may be used to sustain or expand their mission and program goals. At the same time, these financial assets are likely to grow and contract from year to year as other program revenue sources vary and as specific (or special) programs are implemented that may require changes in planned funding.

RPJ believes that these financial assets, when not immediately needed for ongoing operations, should be prudently invested in a manner that preserves the capital, minimizes risk, and creates the opportunity for growth. In all cases, the financial assets (or an appropriate percentage of them) remain available to the organization to allow for continuous, unencumbered operation.

What is my fiduciary responsibility as a member of the Board of my family foundation or non-profit organization?

The principles and rules for fiduciaries have been codified by most states as either the Uniform Prudent Investor Act (UPIA) [applying to trusts and private family foundations] and/or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) [applying to other non-profit organizations].

While each state's version may be slightly different, key attributes generally include:

- a. Exercise duties of care, caution, loyalty, diversification, and impartiality
- b. Be responsible for reasonable management of risk
- c. Diversify the investments of the trust
- d. Allows for delegation of investment management functions
- e. Asserts that compliance with prudence is determined by a trustee's conduct, not portfolio performance

I am not on the investment committee; do I need to know about the investment portfolio?

There are two related issues here. First, as a member of the Board with a fiduciary duty to the organization, you need to be assured that fiduciary standards of care are being adhered to --- even if you are not on the investment committee. Each and every board member has the same overarching fiduciary responsibilities, irrespective of their individual financial expertise. But bearing this fiduciary duty in a responsible manner does not mean you have to be a financial expert; it means you must be aware of the fiduciary practices that should be followed by the financial experts. The second and related issue is simply that your board is allowed to delegate the management of the assets to a third-party expert. Use of a third party does not relieve the board members of their fiduciary accountability, but rather affirms their commitment as fiduciaries by seeking expertise and assistance as required to complement the individual competencies of board members.

The foundation's founder(s) provided the original corpus funding with common stock. The investment performance of this stock has served the foundation well up to now. Why should we consider changing?

While we would never offer investment advice about a particular foundation's portfolio without a complete review, we can offer this: Managing risk is clearly one of the major goals in constructing a portfolio. A prudent investment strategy follows Modern and Post-Modern Portfolio Theory of diversification. Also, many studies have demonstrated that a concentration in any single stock, sector, or segment significantly increases the risk of loss. Exposing your portfolio to this risk could be detrimental to the overall goals of the foundation. If we were engaged as an investment advisor, RPJ would carefully review the prudent options with the foundation and make a recommendation about the best course of action.

We already have a mix of stocks and bonds, so we already have an asset allocation, don't we?

Diversification is not simply achieved by owning a group of stocks and bonds. This mix may or may not be allocated to best meet your needs. You may not have a balanced and diversified portfolio that minimizes risk and expenses. Your "mix" may have been achieved by simply *owning different stocks or bonds*, and not by constructing a portfolio of a broad mix of different asset classes that represent the overall market. Many studies have demonstrated that investment portfolio performance is based 90 percent (or more) on asset allocation and less than 10 percent on asset selection and timing. Therefore, a portfolio consisting of stocks and bonds may be a good start toward achieving asset allocation, but generally requires a more detailed set of guidelines to minimize the overall risk. In fact, almost any investment portfolio that contains an individual stock or bond holding would likely have a higher risk than a similar portfolio that made use of mutual funds or ETFs as the principal investment vehicle.

Why should I consider using RPJ since our investments have been managed by a friend of the family for many years?

You may be well-served with your current investment advisor. An integral part of your fiduciary responsibility is demonstrating that you have undergone a reasonable process to select "experts" who themselves affirm their fiduciary responsibility. Your due diligence in periodically considering alternative investment advisers affirms your commitment to a duty of care and impartiality.

Does RPJ recommend that the organization have an Investment Policy Statement?

Yes. An Investment Policy Statement (IPS) is an important document that a Board of Directors, as fiduciaries, should create. The IPS defines the investment objective, strategy, and process in sufficient detail to guide the actions of all the parties, safeguard the organization's assets, and fulfill the statutory fiduciary obligations of the Board.

We have operated without an investment policy statement for many years, why do I need one now?

Establishing an Investment Policy Statement will allow your board to document and formalize your specific investment strategy. This can be useful in validating the board's effectiveness and accountability in the case of an inquiry by the public, beneficiaries, the IRS or state Attorneys General. Additionally, as board membership evolves and succession planning progresses, an IPS will facilitate the education of new board members on the organization's overall investment strategy.

We don't have a lot of money, why do we need an IPS and/or an investment advisor?

As a matter of policy, we believe every non-profit and charitable board, regardless of its size, should adopt an IPS. The IPS does not have to be long and complicated; but it should exist. By creating an IPS, the board establishes a solid foundation for prudently managing its assets, and communicates to its stakeholders that it takes its fiduciary duties very seriously. By selecting an investment advisor, the board also demonstrates their acceptance of their fiduciary accountability by recognizing the value of using subject matter experts that complement the skills of the board as a path toward maximizing the resources available.

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