

# Developing and Implementing Investment Policies for Non-Profit Endowments

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# Outline

## **Why Does a Non-Profit Need You?**

- What Does a Fiduciary Perspective Add?
- Selling Safety

## **Are You Sure You Want This Client?**

- What you need to Know Before You Commit
- The Influence of Spending Policy
- Your Investment Policy
- What Works and What Doesn't Work in Investment Policy

## **Maintaining Relevance in an Irrelevant Market**

## **References**

# Why Does a Non-Profit Need You?



# What Does a Fiduciary Perspective Add?

## **As a Fiduciary ~**

- Insulate the Board
- Create communication between the Finance Committee and the Board
- Set Expectations
- Help Manage Results
- Alert the Board When Changes Should be Considered

# Endowments

- Boards have Fiduciary Duties and Responsibilities
- Restricted and Unrestricted Funds
- Duty to Prudently Manage Funds
- Bound by UPMIFA (in most states)
- Aware or “should have” been aware of Restrictions

# Selling Safety

“..should have known...”



# Growing Your Business with Investment Policy Knowledge

## – Knowledge of “Safe Harbor” Provisions

- Educate your Client

- Delegation = Insulation from Liability
- Safe Harbor is like Insurance

- Safe Harbor Requirements \*

- Investment decisions must be delegated to “prudent experts”
- Investment Steward must demonstrate that the prudent expert was selected by following a due diligence process
- The prudent expert must be given discretion over the assets
- The prudent expert must acknowledge their fiduciary status in writing (mutual funds exempted from this requirement – prospectus serves as acknowledgement)

\*Participant-directed plans have additional requirements

# Your Business

- Internal Policies
  - Procedures to Manage Potential Conflicts of Interest
  - Promoting a Culture of Fiduciary Responsibility
  - Business Acceptance Policy
  - Knowledge and Redress of Self-Dealing
  - Frequency of RFP
    - Review competitive management and vendor pricing
    - Review scope of services
    - Expanded services offered with no increase of fees





**“Your Honor,  
In our firm we *always* address this issue in this way.”**

# Are You Sure You Want This Client?



# The Advisor - What You Need to Know Before You Commit (*aka Your Pre-Nup*)

## – Know the Client

- The Organization
- Their Mission
- Standing in the Community and Legal Standing
- Can you Ethically Represent Them?

## – Know the Expectations

- Long-Term Growth
- Cash Flow Needs
- Is the Expectation Reasonable

# The Advisor - What You Need to Know Before You Commit

## – Review Existing Documentation

- Investment Policy
- Statements
- Relevant Custodial or Brokerage Agreements
- Information on Retained Investment Managers



KEEP COPIES OF ALL DOCUMENTS REVIEWED AND ANALYSIS IN YOUR PERMANENT FILE

# The Advisor – What You Need to Know Before You Commit

## Restrictions

- Donor Restricted
- Board Restricted
- Does Restriction Affect Investment Decisions
- Can Restrictions be Modified or Released
  - California Probate Code Section 18506 (2012)
  - Uniform Probate Code

# Restrictions – Endowment Funds

- “True” Endowments are classified as permanently restricted
- Funds subject to a restriction that the Board can satisfy – such as a timing restriction or purpose restriction – are classified as temporary restricted.
- Funds with no donor-imposed restrictions are classified as unrestricted.

# The Influence of Spending Policy

## As Important as the Investment Policy

- Key Variables
- Emerging Trends
- Other Sources and Funds
- Alternatives

# Build Your Endowment Investment Policy

- **The Purpose of Policy**
  - Expectations, objectives and guidelines
  - Agreement to monitor and compare performance results
- **Statement of Objectives**
  - Mission of Endowment
    - Long Term Appreciation
    - Cash Flow Needs
    - Maintain Purchasing Power
  - Acceptable Risk
  - Asset Allocation



# Build Your Endowment Investment Policy

- **Statement of Objectives – con't**
  - Time Horizon
    - Long-Term Perspective v. Short-Term Liquidity Needs
  - Risk Tolerance
  - Performance Expectations
    - Benchmarks

# Build Your Endowment Investment Policy

- **Duties and Responsibilities**
  - Finance or Investment Committee
  - Custodian
  - Investment Advisor
- **Asset Class Guidelines**
  - Alternative Investments
  - Socially Responsible Criteria

# Build Your Endowment Investment Policy

## Delegation and Acceptance of Duties and Responsibilities

- Delegation and Acceptance ~ Using Investment Policy or an Ancillary Document
  - Responsibilities of client or investment committee
  - Role of Investment Advisor
  - Role of Custodian
  - Separate Account Managers, if any
    - Securities guidelines
    - Responsibility to seek best price and execution
    - Soft dollar accounting
    - Proxy voting

# Build Your Endowment Investment Policy

- **Rebalancing Strategy**
  - Rebalance to control intended risk
  - When will you Rebalance?
    - Specific Dates
    - Asset Allocation Limits
    - Cash Flow
  - Abnormal Times = “flash reports” for allocation imbalances

# Build Your Endowment Investment Policy

- **Monitoring**
  - Performance
    - Frequency
  - Using Benchmarks
  - Watch List Criteria
  - Measuring Costs
- **Investment Policy Review**
  - Frequency
  - Request for Proposal – Frequency

# What Works and What Does not in an Investment Policy Statement

- **Safety**
- **Ratings**
- **Third Party Custodian**
- **Overreaching Board or Finance Committee Involvement**

# What Works and What Does Not in an Investment Policy Statement

- “Funds will be invested with several institutions..”
  - Effect on Fees
- “Next in importance to preservation of capital is liquidity..”
- “Investments shall be structured in such a manner that cash requirements will be met without necessity of liquidating investments..”
- Yield – “considered secondary to safety..”

# What Works, What Doesn't Socially Responsible Investing

- **What Does Not Work**

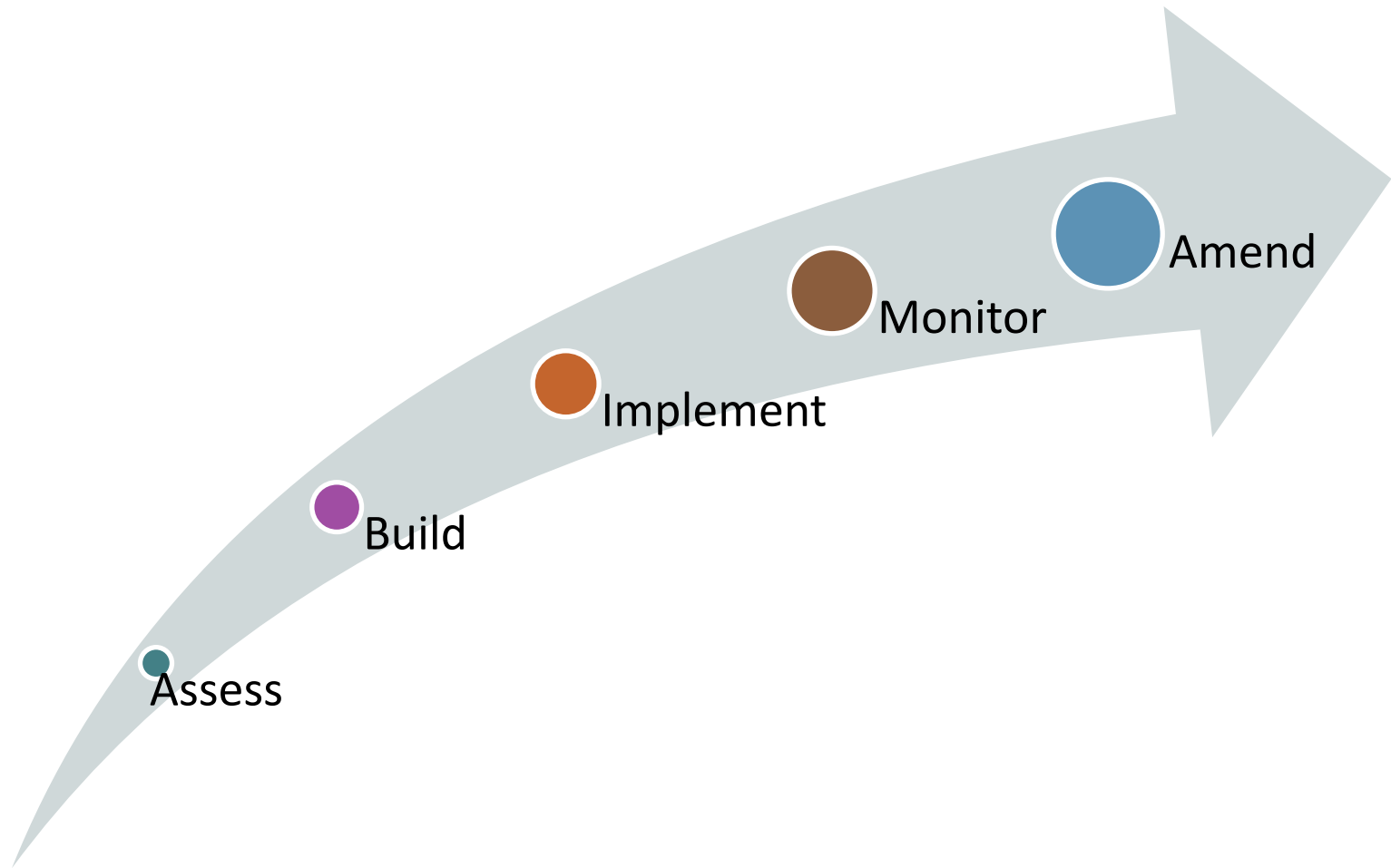
*“Endowments funds will not be invested in companies producing, supporting or contributing to the production, distribution or sale of firearms.”*

- **Try Instead**

*“The manager is instructed to evaluate all investment options according to objective economic criteria established by the manager and, if there are equally attractive investments, social factors may be considered.”*



# Maintaining Relevance in an Irrelevant Market



# Conclusion

As an Accredited Investment Fiduciary ~ or as any  
Fiduciary ~ we are held to the highest  
Standards in our industry.

The services of our profession will be needed more  
than ever in these times that are challenging both  
from a world economic view and from a  
demographic view.

Be confident, diligent and thoughtful in your practice  
and success will follow.

# References

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- **Uniform Prudent Management of Institutional Funds Act (UPMIFA)**

*Thank You for Committing to  
Excellence in Fiduciary  
Responsibility*