

INVESTMENT MANAGEMENT? THAT'S NOT MY JOB!

Prepared for CVFM 201 -
The OperaBons of Fundraising

A green graphic element consisting of a continuous, flowing line that forms a stylized infinity symbol or a ribbon-like shape, positioned above the company name.
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Today's objectives

- Why does investment management matter to a fundraiser?
- Roles for investment committee, Board, staff re: investment management
- What documents does your org need?
- A bit about the investment industry

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Why should you care?

- This may be your organization's biggest source of discretionary income
 - Do you know it is well cared for?

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Why should you care?

- Stewardship:
 - Fundraisers are often first point of contact for large pools of capital – you want to be able to talk about it to donors
 - Donors are increasingly sophisticated
 - Can you intelligently discuss your organization's portfolio?
 - Can you demonstrate your organization is practicing due diligence?

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Why should you care?

- Stewardship
 - More scrutiny than ever before
 - How do you explain gains or losses?
 - Do you communicate your rate of return??
 - Should you communicate your rate of return?

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Why should you care?

Cross Cultural Communication

- English/French/Other
- Investment-ese
- Legal-ese
- Charitable sector-ese

Translating is easier the more you know.

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Board & Investment Management

Board has a key fiduciary responsibility

- Fiduciary = the obligation to act in the best interests of the corporation. It is at its core an obligation of loyalty, honesty and good faith. (Primer for Directors of NFP Corporations)

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Board & Investment Management

Fiduciary Checklist

- Governance Structure and Framework
 - Is it consistent in its implementation?
- Terms of Reference
 - Are roles and responsibilities clearly understood
 - Is there a feedback loop to ensure duties are being fulfilled?

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Board & Investment Management

- Suggestion: Have a board member responsible for this portfolio
 - Leads investment committee
 - Guides Board re: its responsibility

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Investment Committee & Investment Management

- Investment committee's responsibilities:
 - Actively “manage” the money or “manage the managers”?

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Investment Committee & Investment Management

- Investment committee's responsibilities (outlined in **Terms of Reference**):
 - Est. the **Investment Policy Statement**
 - key is choosing asset allocation (how much in bonds vs. equities vs. cash – i.e. how much risk is the org'n willing to assume?)
 - Should you have a short term account for annual disbursements?
 - Choose manager - or managers (if applicable)

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Investment Committee & Investment Management

- Investment committee's responsibilities:
 - Evaluate manager performance on regular basis (at least annually) (**Evaluation Form**)
 - Evaluate overall investment management program on periodic basis
 - Make recommendation re: disbursement levels (**Disbursement Policy**)
 - Determine how gifts of securities will be treated (in IPS)

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Investment Committee & Investment Management

- Investment committee's responsibilities:
 - Review incorporating documents to respect any investment restrictions that may be imposed upon the organization based on how it was constituted.

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Investment Committee & Investment Management

- Who should be on the Investment Committee?
 - A Board member (to act as liaison between committee and Board)
 - Other Board members with interest and expertise, if available

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Investment Committee & Investment Management

- Who should be on the Investment Committee?
 - Members “external” to the organization with investment expertise to provide objective perspective
 - Fundraising staff
 - Finance staff and/or organization’s treasurer

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Investment Committee & Investment Management

- Who should be on the Investment Committee?
 - Most effective committees are recruited as joint effort between staff and chair (**Skills Assessment Chart**)

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Staff and Investment Management

- Who should be responsible?
 - Usually falls to finance staff (b/c it's dealing with numbers.)
 - Fund development staff should be involved. Stewardship is key to fundraiser's job – we must understand so we can communicate with constituents.
 - CEO/ED should also understand to communicate with constituents

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Staff and Investment Management

- Who should be responsible?
 - It will depend on skills, personalities, size of organization, size of portfolio.

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About Investment Industry

- For \$1 million or more, you are considered a big pot of money
- For \$5 million or more, very important client
- For \$10 million or more??

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About Investment Industry

- Charitable org'n's assets have leverage:
 - Investment manager's firm becomes known by several people on committee and Board – expanded reach
- Your organization may give investment manager bragging rights (adds credibility to firm)

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About Investment Industry

- Consequently, you may ask for and receive services of a \$15 million client:
 - Quarterly meetings
 - Presentation to Board or at AGM
 - Take investment manager to big donors, if necessary

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Structure of Industry

- Three things to consider:
 - Fiduciary duty of care
 - Fee structure
 - Relationships

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Fiduciary Duty of Care

- Fiduciary duty of care vs. contractual duty of care
- Discretionary relationship vs. advisory relationship

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Fees

- Strongest predictive element for future returns is fees (including all costs – execution costs, transaction costs, bond spreads, etc.) - not past returns
- Wholesaler vs. retailer



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Fees

- Investment Counsel Portfolio Manager (ICPM)
 - Range of fees
 - Start at 1% for portfolios of \$1 million and decline from there
 - Often a policy of discounting fees or donating back a portion
 - All fees and costs are transparent and fully disclosed
 - Fiduciary Duty of Care

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Fees

- **Managed account program**
 - Accountability is from distributor, not manager (e.g. you can hire a firm (A) that will invest directly on your behalf, or you can hire a firm (B) that buys investments from firm (A).
 - Range of fees: usually done on annual fee basis beginning at 2%+ of investable assets.
 - Look at individual proposals to see fees.
 - Execution and trading costs are difficult to identify.

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Fees

- Mutual funds
 - Range of fees: annual fee + trailer each year
 - MER's typically 2.5%+
 - Trailer fee provided to salesperson by fund company
 - May also be Loads (sales charges) providing commission to salesperson

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Fees

- Important to understand:
 - How people are getting paid
 - How fees are being charged
 - All costs (annual fees, commissions, mark up or combination of all)
- So when you're making comparisons, you're comparing apples to apples


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Fees

- Strongest predictive element for future returns is fees (including all costs – execution costs, transaction costs, bond spreads etc.) - not past returns



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Relationships

- Conflict of interest policy is important – it can provide framework and mechanism to deal with prospective conflict of interest

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Mitigating Factors

- The further away from a large urban centre you are, the fewer potential suppliers you may be able to identify
- Remember: If your portfolio is big enough, firms will travel to get your business.
- “Big enough” can be as low as \$500,000

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Mitigating Factors

- If your portfolio is not big enough to attract suppliers from away - or you are happy with your supplier:
 - be sure to have fee structure clarified so you know the true costs
 - Ensure all pre-existing relationships and potential conflicts are declared
 - Ask supplier to sign an agreement acknowledging a fiduciary relationship.

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Invest on own or use 3rd party?

- Options:
 - Community Foundations (165 in Canada)
 - Tides Canada Foundation
 - Private sector options
- Generally, you must agree to their investment policy.
 - No ability to choose asset allocation, make decisions re: ethical issues, etc.
 - May be required to adopt their Disbursement Policy

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Invest on own or use 3rd party?

- 2 questions to ask (in addition to knowing answers to issues re: fiduciary, fees, relationships, mentioned already):
 - What is value added?
 - you don't have to manage money, which may not be your business
 - simplified reporting
 - May put your organization in front of sophisticated donors

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Invest on own or use 3rd party?

- 2 questions to ask (in addition to knowing answers to issues re: fiduciary, fees, relationships, mentioned already):
 - Is there expert oversight?
 - Who is on their Committee?
 - How knowledgeable are they?
 - How experienced in Foundation investing are they?
 - Do they understand the need to fund annually (difference between investing philanthropic \$ vs. individuals)?

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You've decided to invest on your own - how to find a \$ manager

- Identify list of prospective suppliers
- Develop **Request for Proposal (RFP)** – send same questions to everyone

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You've decided to invest on your own - how to find a \$ manager

- When RFP is returned,
 - Select long-list based on?
 - Select short-list based on?
 - The 5 P's – People, Philosophy, Process, Price & Performance
 - Interview short list candidates
 - Evaluate based on pre-determined priorities
 - Make decision
 - Get Board to approve decision

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You've decided to invest on your own - how to find a \$ manager

- Things to consider:
 - Do staff and investment committee have the
 - technical expertise and
 - time
 - to review all responses, select long and short list, interview and interpret answers?
- Will using an external consultant add value?

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Questions to ask External Consultants

- What is your payment based upon?
- What are their other sources of revenue (e.g. do they sell investment products, too? If so, are there conflicts you need to be aware of?)
- Remember: there are no regulatory rules on who can call themselves a consultant.

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Questions to ask External Consultants

- What is their experience recruiting?
- What is their experience with the charitable sector?
- What is their experience with organizations with similar asset size?
- What is their experience with organizations with similar income?

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THANK YOU!



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