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Acting as an Investment Steward

Rules of the road for not-for-profit board members

When you are successful in business, everyone loves you. Charities and not-for-profits want a little of your money, but mostly they want you. They want to harvest the same level of commitment and expertise that contributed to your success as a businessperson and apply it to their own organizations. They want your leadership abilities, your organizational skills, and the contacts you have developed over the years.

For the most part, this system works. The list of board members on most civic groups typically includes a community's top corporate executives and most successful entrepreneurs. These community leaders not only possess the skills to run their businesses but also give countless hours to making their communities better places to live.

The problem arises when it comes to managing the trusts and endowments of these not-for-profits. Whereas business owners may be very successful in running their own businesses and enthusiastically share their knowledge for the benefit of civic groups, they may not have the specialized experience, knowledge, or skills necessary to act as investment stewards.

Handling someone else's money is not the same as handling one's own, and many business owners don't even handle their own investments. Many board members delegate their personal investment decisions to a financial advisor who they may meet with once or twice a year for a review. Now as board members, they are tasked with making key investment decisions that can directly influence the stability and reach of the organization. To add to the problem, endowments can be enticing targets for investment salespeople who care more about their commissions than the mission of the endowment.

Fortunately, one need not be an investment expert to be a diligent and valuable investment steward. In many cases just asking the right questions can make a big difference. Here are some basic steps to ensure that assets will be invested in a way that supports the organization's mission.

Develop an Investment Policy Statement (IPS). An IPS is a written document that spells out the purpose, goals, and time horizon for investments and how the investments will be managed. It includes the types of assets that can be considered and the kind of risk associated with those assets. It can also include the specific asset allocation and the benchmark against which the investment strategy will be monitored.

If an investment manager is used, the IPS can spell out the steps that will be taken to choose that manager. This is a key step. Too often boards simply turn over their endowments to a brokerage firm without any written guidelines as to how the money should be invested and monitored.



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Define policies to prevent conflict of interests. Guarding against conflicts of interest is of particular importance when hiring an investment manager. Is the manager being hired for his skills and experience, or because he is a friend or relative? Boards who hire outside managers should follow a due diligence process to determine if the investment manager is properly licensed and meets their requirements. This process should be documented to protect the board, as well as the money manager, should any questions later surface as to why this person was hired.

According to Prudent Practices for Investment Stewards written by Fiduciary360 and reviewed by the American Institute of Certified Public Accountants, an investment steward should always ask who is benefiting most from a transaction. If it is anyone other than the not-for-profit, there is probably a conflict of interest.

Ask lots of questions, especially about costs. Investment stewards must always remember that they are managing someone else's money, and they have a duty to donors to ensure that their money is being managed responsibly.

Mutual funds, investment managers, and commissioned investment products all have fees associated with them that should be reviewed and questioned. It does not always mean that the lowest fee product must be chosen, but there must be justification and documentation as to why one service or product was chosen over another, especially when the fees are higher. Not spending the time to question how a fund is structured or how the fees are charged is a disservice to those who generously made donations.

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If the not-for-profit is part of a national association, study the investment guidelines established by the national group. Many national associations have designed investment policies and procedures to assure that local boards follow prudent investment practices. If guidance at the national level is not available, study fiduciary practices and help educate fellow board members before making any investment decisions. Many boards have attorneys and accountants who have access to this information and would be willing to provide board development workshops. Booklets on fiduciary standards can be obtained through the Foundation for Fiduciary Studies at www.fi360.com/main/foundation.jsp.

Many board members are busy business people who give back to their communities by carving out a little time for civic organizations. It's important for them as investment stewards to learn prudent practices so they can protect their organizations' assets and help achieve their goals.



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