

# Investments & Endowments A Primer for Nonprofit Leaders





The Chartered Financial Analyst (CFA) designation is conferred by the CFA Institute to financial analysts who complete a series of rigorous examinations. CFA charterholders are obligated to adhere to a strict code of ethics and standards governing their professional conduct.



The Certified Financial Planner (CFP®) designation is administered by the CFP Board. CFP applicants must pass a comprehensive certification examination, pass the CFP Board's Fitness Standards for Candidates and Registrants, and agree to abide by the CFP Board's Code of Ethics and Professional Responsibility which puts clients' interests first.



Institute of Certified Bankers

The Certified Trust and Financial Advisor (CTFA) certification was established and is endorsed by the American Bankers Association. To qualify for the certification, individuals must have substantial levels of experience and education in the wealth management profession, pass a comprehensive exam and agree to abide by a strict code of ethics.

## Investment Management Group

- Invests for individuals, businesses, and not-for-profit organizations.
- Manages \$2.5 billion in assets.
- Provides clients with access to the expertise of a dedicated team of over 60 professionals.
- Many team members hold high-level professional designations, including:
  - Nine CFA charterholders
  - Thirteen CFP® practitioners
  - Six CTFA practitioners
  - One JD, LLM
- One of the largest independent investment advisors in Greater Boston.\*
- Maintains five investment offices: Boston, Hanover, Providence, RI, Osterville, and Attleboro.

\* Source: Boston Business Journal

# Speaker Bios

**Nancy Chisholm, CRPC***Vice President and Financial Consultant*

Nancy brings over 30 years of financial services experience to Rockland Trust. Previously she worked at The Colony Group as Director of Business Development. Prior to 2010 Nancy had a successful 27 year career at Fidelity Investments, working in both the Retail and Institutional Marketing and Sales organizations. Nancy has a BSBA from Northeastern University, the designation of Chartered Retirement Planning Counselor and Series 65 licensed. She is member of the Boston Estate Planning Council and the Boston Chamber of Commerce Women's Network Advisory Board.

**Damon Barglow, CFA, CFP®***Vice President & Portfolio Manager*

Damon is responsible for managing client portfolios, performing securities research, and setting investment policy. Damon brings 19 years of financial services experience including 10 years as a Portfolio Manager to the Rockland Trust team. Damon holds a Masters in Finance from the Kellogg Graduate School of Management at Northwestern University. He is also a CFA charter holder and has received his designation as a Certified Financial Planner®. Prior to joining Rockland Trust, Damon was a Managing Director at Eastern Bank's Wealth Management division where he managed Core, Growth and Socially Responsible Investment strategies.

**Susan Daileader, CFP®, CLTC***Vice President & Financial Consultant*

Susan is responsible for business development in Plymouth County. Susan began her career in financial services in 1983 at Bank of Boston. Susan has a B.A. from the University of Vermont, the designation of Certified Financial Planner™, and holds a Certification in Long-Term Care (CLTC). Susan is a member of the Board of Directors of Friendship Home, Inc., a not-for-profit serving adults with developmental disabilities. She is involved in fundraising activities for South Shore Hospital and is on the Board of Trustees of the South Shore YMCA. Susan is also the incoming Vice Chairperson on the Leadership Team for the South Shore Chamber's Women's Business Connection.

# Agenda

- Investment Accounts and Endowment Comparison
- Fiduciary Obligations
- Fiduciary Responsibilities
- Investment Committee Activities
  - Investment Policy Statement
  - Select and Monitor Investment Managers
  - Develop RFP Process
  - Document Process
- Conclusion

# Investments / Endowment Comparison

|                                      | Investments   | Endowment   | 403(b)   |
|--------------------------------------|---|---|--|
| <b>Who is Responsible?</b>           | <ul style="list-style-type: none"> <li>• Generally in house (Finance Director, CFO, CEO). Auditors may have some influence</li> <li>• May have an Independent Investment Committee/Finance Committee</li> <li>• May have an Investment Adviser or Broker</li> </ul> | <ul style="list-style-type: none"> <li>• Generally in house (Finance Director, CFO, CEO). Auditors may have some influence</li> <li>• Professional Investment Adviser or Broker</li> <li>• Investment Committee/Finance Committee charged with conducting interviews with investment advisers/brokers</li> </ul>            | <ul style="list-style-type: none"> <li>• Generally in house (Finance Director, CFO, CEO). Auditors may have some influence.</li> <li>• Plans may be either ERISA 403(b) or Non-ERISA 403(b)</li> <li>• Trend to consolidate to single vendor solution to simplify administrative oversight</li> <li>• Employer may hire independent Investment Manager (Fiduciary) or may maintain oversight in-house</li> </ul> |
| <b>Investment Policy Statement</b>   | <ul style="list-style-type: none"> <li>• Recommended but size of Investment Account can influence this</li> <li>• Created with input from Executive Team and Investment Committee/Finance Committee</li> </ul>  | <ul style="list-style-type: none"> <li>• Finance/Investment Committee will create with input from Investment Adviser</li> <li>• Brokers use suitability criteria for determining Investments. Advisers use fiduciary criteria. <i>(See Appendix for Definitions)</i></li> </ul>   | <ul style="list-style-type: none"> <li>• Finance/ Investment Committee to outline due diligence criteria \</li> <li>• Default Investment Alternative (QDIA)</li> <li>• Target Date Funds (if applicable)</li> <li>• Brokers use suitability criteria for determining Investments. Advisers use fiduciary criteria. <i>(See Appendix for Definitions)</i></li> </ul>  |
| <b>Portfolio Time Horizon</b>        | Typically funding for 1-3 years   | 3 years to perpetuity   | As long as Plan is in effect, participant dependent  |
| <b>Investment Portfolio Holdings</b> | <ul style="list-style-type: none"> <li>• Dictated by time horizon, usage of funds and size of portfolio</li> <li>• If Investment Policy Statement is utilized, it will provide investment parameters</li> </ul>   | <ul style="list-style-type: none"> <li>• Investment Policy Statement provides specific guidelines as to investments permitted, for example: Government Bonds, High Yielding Bonds, Domestic Stock and International Stocks</li> <li>• Generally, states mission, distribution criteria and goals for investments</li> </ul> | <ul style="list-style-type: none"> <li>• Participant directed accounts are offered fiduciary protection through Section 404c of ERISA</li> <li>• Plan Document must request 404c protection</li> <li>• Investment/Finance Committee work with Adviser/Broker to determine choices</li> </ul>   |

## Investment Committee Fiduciary Obligations

- A fiduciary is a person who has power and obligation to act on behalf of another under circumstances that require total trust, good faith and honesty.
- In addition, a fiduciary should have greater knowledge and expertise about the matters being handled and is held to a higher standard of conduct and trust above that of a stranger or casual business person.

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

<http://uniformlaws.org/ActSummary.aspx?title=Prudent%20Management%20of%20Institutional%20Funds%20Act>

### **UPMIFA ACT**

[http://www.uniformlaws.org/shared/docs/prudent%20mgt%20of%20institutional%20funds/upmifa\\_final\\_06.pdf](http://www.uniformlaws.org/shared/docs/prudent%20mgt%20of%20institutional%20funds/upmifa_final_06.pdf)



## Investment Committee **Primary Fiduciary Responsibilities**

- Understand Legal Framework
  - Endowment, Pension, 403(b), Restricted/Unrestricted
- Investment Committee By-Laws
- Roles and Responsibilities are Defined and Acknowledged in Writing
- Conflict of Interest Policy (Self-Dealing)
- Conduct Regular Meetings
  - Agenda and Meeting Minutes
- Determine Investment Responsibility of Investment Committee
- Self Review of Investment Committee
- Stay Informed of Changes in Legal Environment

## Investment Committee **Activities**

- Define Committee Responsibility
- Develop an Investment Policy Statement
- Select and Monitor Investment Managers
- Develop an RFP Process
- Document Process



## What Is An Investment Policy Statement ?

An Investment Policy Statement (IPS) is the foundation on which your financial future is built. An IPS creates the map future trustees, and stakeholders, will follow and interpret...It is your financial charter, or constitution.

### Key Components

- Maintain Written Detailed Policy
- Outline Objectives and Purpose
- Determine Investment Strategy
- Set Asset Allocation and Diversification Guidelines
  - Stocks, Bonds, Cash
- Establish Payout Policy and Cash Flow Requirements
- Determine Permitted Investments
  - Large, Mid, Small Company Stocks
  - Treasury, Government, Corporate Bonds
  - International Stocks/Bonds, Alternative Classes (REITS, Venture Capital, Private Equity, Hedge Funds)

## Investment Policy Statement (Cont.)

### Key Components

- Identify Risk, Return and Time Horizon
- Determine Modeled or Expected Portfolio Return
- Establish a Review Schedule
- Caveats:
  - Be careful not to be too limited
  - Set guidelines for restricted vs. unrestricted gifts
  - Don't forget periodic evaluations
  - Include responsibilities

**Don't Panic!** Your Adviser will work with you to create an IPS if you don't have one today.

## When It's Time to Hire an Investment Manager

1. Set Your Goals and Objectives for the **Request For Proposal (RFP)**
2. Prepare the RFP
3. Identify Candidates
4. Evaluate Responses and Select Finalists for Presentation
5. Schedule Manager Interviews (Presentations)
6. Select Managers

*Let's Take a Look At These In More Detail...*

# RFP Process

## 1. Set Goals & Objectives

- Create or Review Current IPS
- Determine Scope of Engagement
- Determine Who From the Organization Will be Participating in RFP Process
- Establish a Time Frame

## 2. Prepare the RFP

- Construct a Standard List of Questions and Tailored to Your Particular Goals, Needs and Objectives

## 3. Identify Candidates

- Identify Investment Management Firms Based Upon the Parameters Established in Step 1.
- Consistent with Organization's Philosophy
- Required Asset Classes
- Service Model
- How Many Firms Should be Included?

## 4. RFP Evaluation

- The Four "P's": People, Philosophy, Process and Performance...

## The Four P's – People, Philosophy, Process and Performance

|             |   |
|-------------|---|
| People      | Tenure of Key Personnel, Professional Credentials, Consistent Growth in Assets<br>Change in Ownership, Account Servicing Problems   |
| Philosophy  | Does the firm's investment style and approach align with your organization's<br>investment objectives? Is it clearly articulated and understood?  |
| Process     | Is the Investment Process Understandable? Has There Been an Increase in Portfolio<br>Turnover? Does the firm use a team approach? Are fees reasonable?  |
| Performance | Has the Firm Shown Competitive Results Versus Peer Groups and Appropriate<br>Benchmarks? Are the Returns Consistent with the Manager's Style? How Does the<br>Portfolio Perform in Up and Down Markets? |

## 5. Schedule Manager Interviews

- Manager Interviews Rather Than Manager Presentations
- This is Your Time to Ask Questions!
- Place a Strict Time Limit on Manager Presentations
- Be Prepared with a List of Questions
- This is Your Last Opportunity to Perform Due Diligence

## 6. Select Manager

- Congratulations! All of the Hard Work is Now Done
- Choose the Investment Manager That is the Best Fit With Your Overall Investment Philosophy and Goals
- Notify all Finalists of your Decision
- If You Have Followed an Impartial, Consistent Evaluation Methodology, You Should Feel Confident That You Have Made a Proper Decision

## Document The Process

- Written Investment Policy Statement
- Establish meeting schedule
- Agendas and minutes from all meetings
- RFP records
- Relevant legal and educational documents

Conclusion  
and  
Thank You!



# Appendix

**Suitability:** Investment Recommendations must be based on income, net worth, investment objectives, risk tolerance and other security holdings. (<http://www.sec.gov/answers/suitability.htm>)

**Fiduciary:** A fundamental obligation to act in the best interests of your clients and to provide investment advice in your clients' best interests. You owe your clients a duty of undivided loyalty and utmost good faith.

## RFP Evaluation of Finalists

- Establish a Methodology for Scoring to Help Evaluate Investment Mangers (example below)
- Check the References of Finalists Before Invitation to Presentation Round.

### Sample Evaluation Grid

| <u>Criteria</u> | <u>Weighting</u> | <u>Score (1-5)</u> | <u>Weight x Score</u> |
|-----------------|------------------|--------------------|-----------------------|
| Client Service  | 10%              |                    |                       |
| Communication   | 5%               |                    |                       |
| Performance     | 25%              |                    |                       |
| Philosophy      | 25%              |                    |                       |
| Process         | 25%              |                    |                       |
| Organization    | 10%              |                    |                       |
| <b>Total</b>    |                  |                    |                       |