INVESTOR EDUCATION SERIES

UNITED CHURCH FUNDS

Faithful Management and Fiduciary Responsibility

As a new year begins, with new endowment and investment committee members taking office, the time seems right to review the responsibilities of church members entrusted with managing and overseeing church investments. While “fiduciary responsibility” may be a big-sounding phrase, it ultimately boils down to *trustworthiness*.

The word “fiduciary” derives from the Latin fide or faith — the same root for fidelity, faithfulness and confidence. When we trust a fiduciary with our assets, we expect their actions will be carried out in a manner that remains faithful to our intentions. We place our faith and confidence in their judgment, virtually without reservation. When an individual becomes a member of the governing body of a church or other organization, they accept that responsibility of faithfulness on behalf of the organization’s past, present, and future members. Such fiduciaries must take care to maintain their undivided loyalty toward the organization that placed its trust in them.

Investment or endowment committee members assume three primary duties of fiduciary responsibility —

1. **The Duty of Loyalty**
   Acting solely in the best interest of the institution, rigorously avoiding even the appearance of a conflict of interest while managing the organization’s affairs. The duty of loyalty means that church or committee members cannot serve as the organization’s investment broker or agent, even if they agree to return any commissions or earnings they may derive.

2. **The Duty of Care**
   Operating in a reasonable and informed manner, insisting on the information needed to monitor investment managers, and using best practices in decision-making. The duty of care also assumes that investment committee members will attend committee meetings regularly.

3. **The Duty of Obedience**
   Operating in accordance with the stated mission, goals and objectives of the organization; remaining in compliance with both the law, and with the policies, guidelines and covenants established by the organization. Church members nominated to serve on investment or endowment committees need not be investment professionals — a range of voices are needed to ensure each committee represents the church as a whole.

KEY POINTS

Church investment and endowment committee members carry a range of responsibilities – but their fiduciary responsibility tops the list. Women and men entrusted with oversight of church or organizational assets owe three primary duties of responsibility to donors past, present and future –

1. **The duty of loyalty**
2. **The duty of care**
3. **The duty of obedience**

In addition, members of management committees remain responsible to applicable laws and expectations governing organizational funds. Church endowments are governed in most states by the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which describes and details the policies and decisions that comprise wise investment management.

The Challenge of Internal Management

Fiduciary responsibility covers all aspects of endowment management — from acceptance and investment of funds to spending endowment proceeds. Church committees that manage their own investments can run a greater risk of comprising that responsibility. While the task itself can often prove cumbersome and difficult, internal portfolio management is also fraught with opportunities for conflicts of interest, conflicts among church members, and even legal challenges.

With rare exception, churches are well advised to select an outside investment manager to handle their endowment portfolio. In selecting an investment manager, a committee should consider the potential manager’s company structure and management history, performance history with the types of assets your church has selected, fee structure, and commitment to investing with your values in mind.

Those entrusted with the management of assets that belong to others must serve as wise stewards of the assets placed in their care. To learn how United Church Funds can help your church or organization fulfill its fiduciary responsibility, give us a call at 877-806-4989 or visit us online at ucfunds.org.

The Uniform Prudent Management of Institutional Funds Act

In July of 2006, the National Conference of Commissioners on Uniform State Laws approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and urged states to adopt the Act as law to replace the 1972 Uniform Management of Institutional Funds Act (UMIFA). The new Act provides stronger guidance for investment management and establishes more precise rules for prudent investment. Highlights of UPMIFA include –

- **Freedom to choose various kinds of investments**
- **Responsibility to manage costs** in relationship to the assets, the purpose of and skills available to the organization.
- **A spending policy based on total return** is expressly authorized, with seven criteria to guide the determination of the percentage of total return an organization my select given –
  1. duration and preservation of the endowment fund
  2. the purposes of the organization and the fund
  3. general economic conditions
  4. effect of inflation or deflation
  5. the expected total return from income and the appreciation of investments
  6. other resources of the institution
  7. the investment policy of the institution
- UPMIFA **abolishes the historic dollar value** limitation on expenditure. "Historic dollar value" is the fair value of the original gift and subsequent gifts along with accumulations to the permanent endowment.
- **Seven percent rule** presumes expenditure exceeding 7% of total return is imprudent.
- UPMIFA provides new procedures **for releasing restrictions on small institutional funds** (less than $25,000) held for a long period of time (20 years), requiring only notice to the state's Attorney General.

Pennsylvania remains the only state that has not engaged legislation to enact UPMIFA, with legislation pending in Mississippi and Florida. All other states have adopted some form of UPMIFA legislation. For more information, visit www.upmifa.org

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