

FIDUCIARY FOCUS

Third Quarter, 2020

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As I often find myself these days, I was recently on a Zoom call with an Investment Committee (which shall remain nameless to protect the innocent), discussing a proposed Investment Policy Statement. The group in charge of putting together the initial draft didn't deviate much from a template, probably found online with a few customizations thrown in here and there. Although the template itself was fairly standard, churches and non-profit organizations are often not.

An investment policy for churches or other faith-based organizations should be viewed not as a policy to be blindly followed, but more of a guide supplying responses to core questions and serving as a living covenant tying the church's financial and/or investment objectives to your mission and ministry. You shouldn't have to be an investment professional to be able to understand what's in the policy or to serve as a fiduciary leader of your church. In fact, many of the most effective Investment Committees I work with have members with limited financial backgrounds. However, these members bring their various experiences to the table and share a common fidelity to the organization and their status as fiduciaries. (Key Note: A "fiduciary" is someone who stands in a close and covenantal position to financial and/or investment assets of an institution, and is required by law to solely serve the best interests of the institution. This obligation is often referred to as the "duty of loyalty and care.")

To start the process of building a workable and effective investment policy, think about the following six questions as starting points on the journey:

1. What is your organization and what does it stand for?

- Often takes the form of describing a legal name for the entity and listing a mission and/or values statement.

2. Who are those within and outside the organization that are bound by a fiduciary responsibility to it, and what are their specific roles and duties?

- Investment Committee Members
- Investment Advisors (Managers)
- Outside Consultants
- Broker/Dealers and/or Custodians

3. Which recognized laws and/or organizational by-laws or constitutions are providing guidelines to the organization and its fiduciaries?

- For all states except Pennsylvania, there is a Uniform Standard Law for fiduciaries of non-profit asset management: UPMIFA.
- If the constitution or by-laws of the organization specifically denote the descriptions and responsibilities of the Investment Committee, they should be listed here.

4. How will the organization define its financial goals and its core values as part of creating a suitable investment portfolio?

- Responsible investing parameters should be consistent with professional portfolio management best practices (diversification, asset allocation, etc.) and the financial requirements of the organization.
- Work with a reputable and experienced investment advisor to build an asset allocation strategy and portfolio that values your organization's mission goals and funding requirements.

5. Through what processes will the organization distribute funds from the portfolio to supply dollars for mission and ministry, and when will those distributions be most effective to the organization and least detrimental to the portfolio's long-term purchasing power?

- Churches are encouraged to use a responsible percentage of a rolling quarterly balance to take distributions. For example: an annual distribution of 4% (taken quarterly) based on the rolling average of the previous 12-quarter account balances.

6. What happens if our investment policy, the fiduciaries or the needs of the organization change?

- This includes the parameters by which a fiduciary can be hired or fired, the process for taking an additional draw or excessive distribution, or governance approval for changes to the investment policy.

Many organizations include a seventh question regarding gift acceptance, or they will create a separate gift acceptance policy.

From the six core questions, an organization's leaders should be able to build a solid investment policy statement that can stand the test of time. Clearly there will be times to make adjustments to the policy as goals, requirements and vision of the organization change, but I generally encourage Committees to adopt policies that have a bit of flexibility to avoid regular changes and allow the fiduciaries to do their jobs. To summarize, ask yourself these questions:

- Does my church or organization have an up-to-date investment policy that answers the six core questions listed above?
- When was the last time a professional reviewed our policy? (Hint: You should have your investment policy reviewed every two years.)
- Has my church or organization ever conducted a full fiduciary review?
- Who is qualified to do a formal investment policy or fiduciary review, and where do I find them?

The answer to the fourth bullet is a complicated one in that there is little training available to volunteers who serve as fiduciaries, and unfortunately the same is true for investment professionals who typically lack expertise and experience in dealing with the unique needs of churches and non-profit organizations. An organization called Fi360 is the leading voice in the investment industry on best practices for fiduciaries, and they have created a set of standards for fiduciaries to follow and a plan of action for comprehensive fiduciary reviews. Fi360's gold standard designation is that of the Accredited Investment Fiduciary Analyst (AIFA) – an accreditation for which investment professionals go through a rigorous training to achieve.

In order to best serve our clients, United Church Funds (UCF) has an AIFA on staff to assist our clients – the author of this article. Our team is available to our clients to help you ensure that you are using effective and efficient strategies to help you meet your fiduciary obligations and ultimately grow your assets responsibly and prudently over time to fund the mission and ministry important to your church.

If you would like to discuss a review of your church or organization's investment policy or the process of a full fiduciary review, please reach out to Matthew Wagner, Vice President of Institutional Relationships. As always, we appreciate the opportunity to serve your church!