Investing Now for Small and Medium-Sized Foundations
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Presenters:
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Moderator:
Barbara R. Greenberg, president of The Philanthropic Group www.philanthropicgroup.com and member of the Finance Committee of Philanthropy New York

Background
The Investment Fund for Foundations (TIFF) seeks to improve the investment returns of endowed charities by making available to them a series of multi-manager investment vehicles, plus educational resources aimed at enhancing fiduciaries' knowledge of investing. For more information see www.tiff.org

For the purposes of this session, Dick Flannery and John Merrill noted that their presentation would be made solely from an investment perspective, without any intent to address other responsibilities of foundation boards of directors.

Topics addressed in this workshop were fiduciary responsibility, investment policy, manager selection and oversight, and spending policy, as well as observations about the current environment and economic outlook.

Following are notes on several of the topics covered:

1. Fiduciary Responsibilities of Boards of Directors

State law governs the fiduciary duties of a charitable organization's board of directors. The New York "prudent person standard" can be found in the New York Business Corporations Law, Section 717 - Duty of Directors. The Uniform Management of Institutional Funds Act (called UMIFA for short) guides charitable organizations in their investment of funds. UMIFA has been adopted in 47 states and the District of Columbia. In 2006 UMIFA was updated and renamed the Uniform Prudent Management of Institutional Funds Act (called UPMIFA for short). To date, 44 states have enacted UPMIFA, and New York is not among them. However, UPMIFA's website contains a useful state-by-state listing of the fiduciary requirements each state imposes on charitable organizations, and New York is included in this list. www.upmifa.org

2. Elements of an Investment Policy

Every foundation should have a current investment policy approved by its board of directors. When writing an investment policy, these six elements should be included:

(1) The return objective – for instance a reasonable objective might be 9 percent (5% for payout, 1% for other fees and expenses, and 3% for inflation).
(2) The risk profile – what level of risk the foundation is willing to take.
(3) Liquidity – how willing the foundation is to tie up its assets, taking into consideration whether the foundation was created in perpetuity or is spending down, whether

additional funds are expected to be received, and what the foundation's cash flow needs are.

(4) Spending policy – how much the foundation intends to spend to carry out its mission and meet its various expenses.

(5) Asset mix – a specific description of the asset allocation for the investment portfolio.

(6) Measurement – how the foundation will judge performance. Possible ways to measure might include:

  (a) By absolute return, for example, did the investments achieve a 9% return, if that is the goal. See (1) above.

  (b) By relation to appropriate benchmarks, for instance, the S&P 500 for equities, Barclays Aggregate Bond Index for bonds, the REIT index for REITS, etc.

  (c) By asset allocation

  (d) By peer group – how the foundation's performance compares in relation to other managers of endowments

3. Other Resources

To assist in writing or reviewing an investment policy for your foundation, examples of investment policies created by other foundations are available to members of Philanthropy New York (www.philanthropyny.org), the Association of Small Foundations (www.smallfoundations.org), and the Council on Foundations (www.cof.org).

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