

Are You Managing Your Assets Properly?

7 Steps to Protect You and Your Ministry From Loss and Liability

By Mark A. Bankord

Leaders of nonprofit organizations face difficult choices when trying to determine how best to manage their accumulated institutional assets. Many organizations are comfortable with an informal approach. But new market realities and legal liabilities require more principled, disciplined procedures. This article presents seven essential steps organizations should follow if they want to make the right choices and demonstrate to stakeholders that they're doing so.

Many board members and ministry leaders are unaware of the personal liability they incur if investment responsibilities aren't handled properly. "Prudent Investor" rules are rapidly becoming the law of the land, as many states adopt them as their standards for nonprofit boards. Ministries that take stewardship seriously should seek to stay "ahead of the curve" by establishing their own solid asset management practices.

When followed properly, "Prudent Investor" rules actually help organizational leaders address both long- and short-term objectives, while relieving staff and board members of liability for investment decisions. The following seven steps will help you establish the guidelines and procedures that will enable your organization to reduce liability and create a solid footing for future growth and stability.

■ **Step One: Create an Investment Committee.** The Investment Committee, appointed by the board, assumes

oversight responsibility for the ministry's assets. Typically, its members should include a board representative, the ministry's finance or management departments, and ideally, a knowledgeable outsider possessing specialized experience in asset management and a sensitivity to your ministry's purpose and objectives.

Make sure no committee member stands to benefit personally from its deliberations. Supportive investment insiders can contribute valuable insight, advice and accountability, but should *not* be managing your assets. Conflicts of interest can cloud people's judgment, hinder investment effectiveness, and subject your ministry to legal liability.

The board should give the committee clear marching orders concerning the scope of its work and its authority to act. The board should also specify how often the committee should meet, how often and in what manner it should report back to the board, and how it should keep written minutes of its meetings and document its deliberations.

■ **Step Two: Assess Your Financial Situation.** What assets does your ministry currently control? How has it historically managed them? How has the performance of those assets com-

pared to basic market indexes? What policies or procedures govern your investment practices? Has your ministry been a good steward of the assets it currently controls? And do its asset management practices align with ministry values and objectives?

Answering these questions is an important step in assess-

When properly executed, your ministry's investment activities can harvest additional resources for doing God's work and enhance your long-term stability.

ing your current financial situation. You may want to retain an outside consultant to conduct a detailed audit of your practices, policies and performance.

The consultant should have a solid track record of asset management, a clear grasp of your organization's history and mission, and should receive all the cooperation and access needed to ask all the hard questions required to produce a detailed and accurate Investment Management Audit Report.

If your ministry already has a written investment policy, the audit can help you determine if it adequately addresses both current ministry needs and market realities, and if it's being followed appropriately. If you don't have a formal policy, the audit can help you develop one that will guide future investment activities.

■ Step Three: Assess Your Financial Goals. Is your ministry financially stable? Is your income regular and predictable? Are your financial assets designated for future growth, or will they be used to fund current programs? And will your asset management goals focus on maximized growth, steady accumulation of wealth, supplemental income for operations, or some mixture of them?

Answering these questions will help you develop your investment goals, establish appropriate timeframes for evaluating the return on various assets, and determine your optimal risk tolerance.

■ Step Four: Develop and Implement Your Ministry Investment Policy. This is a critical tool for any organization. It accomplishes three important objectives: it establishes the guidelines that will govern all current and future investment activity; it helps board members, staff and outside consultants understand the organization's objectives; and it allows the board to fulfill its fiduciary duties in such a way as to protect the members and the ministry from unnecessary liability.

Here's a list of the major required components:

- Outline the duties and responsibilities of the board, investment committee, asset manager (see Step Six), and relevant ministry staff.
- Identify and segregate asset pools

based on situations and goals identified in Steps One and Two. Define the purpose and objectives for each pool.

- Establish the appropriate asset classes, allocation ranges, diversification guidelines and risk tolerances for each pool.
- Define time horizons (cash flow requirements), withdrawal limitations and rebalancing procedures for each pool.
- Ensure that your investment policy and asset management objectives are consistent with ministry values and ethos.
- Create an "arms-length" policy that protects the ministry, its leaders and board members from perceived or actual conflicts of interest.
- Stipulate that asset management plans and decisions be strictly guided by and rigorously measured against your investment policy.
- Determine and document any regulatory restrictions governing the allocation of your assets (retirement funds, gift annuities, endowment, trusts, etc.)
- Specify control procedures that will help you avoid the temptation to drift outside of the policy or engage in spur-of-the-moment investment decisions.

■ Step Five: Establish Benchmarks and Accountability Mechanisms. Make sure your investment policy controls and guides your asset management activities, including the establishment of clear performance benchmarks and well-defined reporting procedures that will be followed, regardless of who executes the asset management role.

Here's a list of the major steps involved:

- Create a composite performance target that fulfills ministry objectives and provides a clear, measurable goal.
- Establish appropriate and consistent indexes for each asset class and pool. These indexes should not change on the whim of the asset manager. They are fixed goals that should not change unless the Investment Committee agrees that it's necessary.
- Specify the investment Peer Groups you'll use to measure against, in addition to the index benchmarks. A peer group is simply a selection of money managers and mutual funds with blends and types of investments similar to

yours. If you're out-performing the S&P 500 but under-performing your peers, you need to know this. Peer group analysis is a powerful tool to help you assess the real performance of your advisor/manager.

- Measure performance against your investment policy guidelines. It's crucial that you remain consistent with these guidelines, for noncompliance can lead to legal liability.

■ Step Six: Outsource Your Asset Management Responsibilities. One of the most prudent steps you can take is to select an experienced independent firm to manage your assets in accordance with the policies developed in Steps Four and Five.

Experienced firms that specialize in asset management can lead you through the process of evaluating the thousands of available funds and determining what mix of investments is best for you.

Outsourcing can also contribute to good stewardship. No one expects ministry staff to focus on the daily activities of the world's financial markets. Contributors expect your ministry to possess a level of sophistication and accountability that's typically achieved best through an outsourced solution.

Finally, and perhaps most importantly, hiring an independent firm helps avoid the conflicts of interest outlined in Step One.

When asset management responsibilities are appropriately outsourced to a qualified firm with no personal involvement in the ministry, your board and finance committee can more effectively hold it accountable. When in-house or ministry-related parties make important investment decisions, you and others in leadership are subjected to unnecessary liability and discomfort.

There are many qualified firms, and evaluating their strengths and weaknesses can be a challenge. Here's a list of the major criteria you should use:

- The firm's principals must understand and relate to your organization's Christ-centered commitment, mission and strategic direction. Creating alignment between asset management and your values, objectives and mission is paramount.
- The firm should have a proven record in fund management through at

least one full market cycle of ups and downs.

- Preferably, the firm should have experience with other church or ministry clientele.
- The firm should have the backing of a substantial asset management organization, enhancing security and long-term viability.
- The firm must be properly credentialed, licensed and insured.
- The firm's reporting methods should comply with Association for Investment Management and Research (AIMR) standards (now the CFA Institute).
- The firm's fee structure should be fully disclosed and easily understood.
- The firm should provide you with references, and they should be contacted.

■ **Step Seven: Implement a Regular Review Process of Policies and Activities.** Regular review is a prerequisite for making sure your ongoing asset management strategy is kept current, active and compliant. Market conditions can change rapidly. While holding firm to the original strategy may work well in most circumstances, proactive

course adjustments may at times be necessary.

It's therefore important that the finance committee establishes a quarterly (minimum) review meeting with the advisor/asset manager. Here's a list of the major issues you should review:

- Compliance with investment policy guidelines
- Continued relevance of the investment policy
- Adherence to investment strategies
- Appropriate portfolio rebalancing
- Performance that matches goals, objectives and benchmarks
- Awareness of market conditions
- Proactive nature of the asset manager
- Fiduciary responsibility of the finance committee

All decisions made by the finance committee should be fully documented and recorded in detailed minutes of its meetings.

Raising the Bar

Sound stewardship requires solid principles, sound management, and the expertise of those who understand the

complexities of financial markets because they deal with these markets on a daily basis. Asset management should be based on an objective, unemotional process. When properly executed, your ministry's investment activities can harvest additional resources for doing God's work and enhancing your long-term stability. Equally sound practices can also give leaders and board members the freedom they need to focus on other urgent ministry needs.

To receive a copy of the complete Investment Policy White Paper on which this article was based, please email your request to Stephen.Caton@captrust.com.

Mark Bankord is managing partner/chairman of CapTrust Afiniti Solutions (www.captrustafinitisolutions.com), Rockford, Ill. He also serves as an officer on CMA's board of directors and is a member of the faculty at CMA Long Beach 2005. You may email him at mark.bankord@captrust.com.



© 2005, Christian Management Association. All rights reserved.