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A comprehensive investment policy – the foundation of successful investment management programs

Today, many non-profit organisations are grappling with questions about how they respond to the performance of their investment portfolios. A tough year in the market has resulted in capital value reductions of most investment portfolios. With a deteriorating global economy increasing the demand on services from the non-profit sector, unexpected investment outcomes could not come at a worse time.

The possible slowdown in funding for non-profit organisations, from the business sector and households, only increases reliance on internally generated income streams. Emerging anecdotal evidence suggests that non-profit investment outcomes are having a significant impact on their ability to deliver their mission and programs.

In these challenging times, it is critical for boards, trustees or other investment fiduciaries of non-profit organisations, to ensure they follow a disciplined and systematic approach when overseeing their investment management programs. Failing to do so through difficult times can lead to reactive decision-making, which could potentially have a significant long-term effect on returns, assets and the organisation's ability to achieve growth in their desired social impact. The risks of getting too aggressive in the good times, and perhaps also too illiquid or too conservative in difficult times and missing a major rebound, can be reduced through the discipline provided through an investment policy.

So, what is a disciplined and systematic approach? The foundation of most successful investment management programs is a comprehensive investment policy. A well-formulated investment policy for a non-profit organisation can act as both a blueprint and a scorecard for managing its investment strategy. An investment policy is a key tool for all investors and even more critical for boards, trustees or other investment fiduciaries who are entrusted to oversee the investment of non-profit organisations. The investment policy forces these entities to put their investment strategy in writing and commit to a disciplined and systematic approach. It is designed to take the emotion out of investing and keep strategies on track, regardless of how the markets or the economy behaves.

Developing an investment policy demands careful consideration of those factors that make non-profit organisations unique. These factors include the timing of revenues and expenditures, tax status, financial and non-financial risks, liquidity constraints and desired levels of authority to be delegated to investment managers. Although template policies are often used for the development of an investment policy, boards, trustees or other investment fiduciaries of non-profit organisations should avoid the temptation to take short-cuts in the development process. Instead, they should invest their time to ensure their investment policy accurately reflects the mission and goals of their organisation. Figure 1 provides a number of important components which should be considered for inclusion in an investment policy. It should be tailored for them and their particular situation and they should help develop it and then own it.

Figure 1: Components of an investment policy

- Preamble on the organisation including definition of investment goals and objectives
- Fund-flow guidelines
- Risk statement
- Socially responsible or ethical investment considerations
- Return objectives
- Allowed asset classes
- Asset allocations decision including control bands
- Investment management structure
- Performance reporting
- Investment review

The starting point is a well thought out statement of a non-profit organisation's investment goals or simply defining why the organisation is investing its funds. There are many questions to be answered such as, are the funds earmarked for a specific goal and what is the time frame? Or, are the funds being invested to ensure purchasing power is maintained while providing income to supplement ongoing operational expenditure? Understanding the investment goals is fundamental to determining a suitable investment strategy and ensuring the fundamentals of risks and return are appropriately calibrated.

Once the investment goals are determined, stepping through the subsequent components of an investment policy provides a plan for formulating the investment mix required to achieve these goals. When completed in consultation with appropriate stakeholders, the investment policy should be circulated to the key stakeholders of the organisation. Securing their support legitimises the investment policy as the authoritative guide for an organisation's investment management program.

An investment policy should be reviewed periodically. As investment goals evolve, the investment policy should be reassessed. Even if investment goals remain unchanged, boards, trustees or other investment fiduciaries should review their investment policies, at least quarterly, to ensure that their portfolios are in line with their policies and that their goals are being met. The review process is useful for new investment fiduciaries to become familiar with the investment policy.

The establishment of an investment policy is fundamental to the prudent management of a non-profit organisation's funds. The extent to which an investment policy is successful in acheiving its goals largely depends on the importance assigned to it by the key stakeholders of an organisation.

Boards, trustees or other investment fiduciaries should be willing to actively operate in accordance with the investment managers and ensure investment mangers clearly understand the rationale and requirement to act within the policy guidelines.

The JBWere Philanthropic Services team can support non-profit organisations in the development of a tailored investment policy. For more details, please contact your JBWere adviser or the Philanthropic Services team.

The JBWere Philanthropic Services team is committed to contributing to the ongoing development of the philanthropic and the non-profit sectors in Australia and New Zealand. Our team has been an integral component of JBWere's wealth management offering since 2001.

We work with individuals, families and businesses to help them develop and implement strategic philanthropy goals that meet their particular family, legacy, tax or financial situation.

We also work with non-profit clients on governance, on how to maximise investment outcomes and on how to appeal to donors. In further support of our clients, we conduct and compile research on best practice in the non-profit space and share these findings with our clients. Additionally, our team provides capacity-building seminars and events that provide educational opportunities for non-profit staff and board members.

To find out more about how our JBWere Philanthropic Services team can help you, please contact:		
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