FEG INSIGHT

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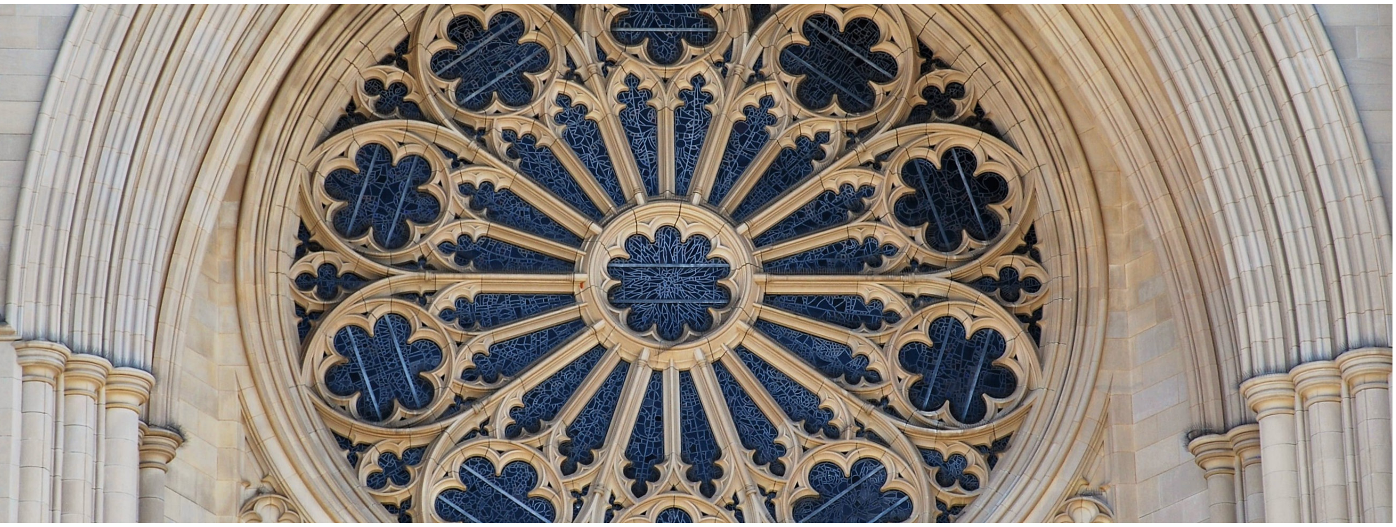

FAITH AND GOVERNANCE

For Fiduciaries of Faith and Funds

FEG investment advisors

According to a 2017 study by Giving USA, 30% of all giving dollars go to religious institutions, far outpacing education, the next closest category, which stands at 14%. The rate at which donors contribute to religious organizations is a not only a clear sign they believe in the organization's mission, but that the institutions have proven themselves worthy of donors' trust and commitment.[1]

Donations to religious-based organizations come from faith and are intended to support the religious mission of the institution. Most often donations provided to these institutions are given to those who care for the sick, feed the poor, and meet the needs of their believers. These gifts ensure institutions that faith will continue to be the bedrock of their respective communities.

An important role in continuing these services falls on the stewards who help manage these donated funds. These individuals, known as fiduciaries, are tasked with the responsibility of prudently managing an institution's funds in accordance with the organization's values-a task both challenging and critical for the success of any organization.

The investment landscape has evolved including growth of faith-based investment vehicles, fostering competition among fund managers. These new opportunities can benefit religious investors through lower fund fees, greater customization, and increased pressure on funds to exceed their benchmarks.

With these new opportunities come challenges for the investor. With more investment options, volatile market environments, and limited resources, how does an investment or finance committee ensure they are managing their organization's assets in the most effective manner?

A great place to start is to ensure that fiduciaries are investing and making decisions that are aligned with faith-based values. Fiduciaries should also look to create realistic governance standards that will place their committee in the best position to strengthen decision-making and capture timely investment opportunities.

"Now it is required that those who have been given a trust must prove faithful." (1 Corinthians 4:2)

A governance structure allows organizations to identify specific roles and responsibilities for fiduciaries entrusted to oversee and manage an organization's investment program. The three governance structures typically observed in finance and investment committees are Multi-asset, traditional consulting, or Outsourced Chief Investment Officer (OCIO) service.

MATRIX FOR FAITH BASED INVESTMENT PROGRAMS

Solution / Model	Fiduciary Obligation Fulfilled	Time Investment by Staff/Committee	Portfolio Customization	Invest with Religious Values
Multi-Asset	Yes	Little	Little	Yes At a high level
OCIO	Yes	Medium	Medium	Yes
Traditional Consulting	Yes	Extensive	Complete	Yes

Source: FEG

ASSET ALLOCATION FUNDS

Multi-asset class funds are typically utilized by organizations with fewer assets, who's fiduciaries may lack institutional investment expertise, and do not have time to meet on a regular basis.

These solutions are not a type of governance model but are turnkey mutual funds, separate accounts or commingled vehicles, developed with a specific asset mix that can conform to a specific set of religious values. These funds include allocations to multiple asset classes, typically equity and fixed income, and feature a disciplined rebalancing policy and are set up to broadly diversify risk exposures.

Placing your organization's capital in a multi-asset class fund meets the fiduciary standard. The time commitment from your committee and staff in terms of investment management would be minimal, and mostly spent reviewing quarterly fund performance fact sheets, attending the selected manager's webinars, and discussing strategic policies on an annual basis.

GOVERNANCE MODELS

TRADITIONAL CONSULTING

Unlike smaller organizations, institutions with sizable assets can benefit by utilizing the services of a Chief Investment Officer (CIO). The CIO role can be replicated a variety of ways within an institution's investment program. The most obvious and straightforward way is to hire a CIO.. As this position would require additional resources, this option is often only financially feasible for organizations whose assets are in the billions.

For this reason, few religious institutions have an internal CIO under their employ. Traditionally, institutions hire an outside consultant who works with a volunteer committee to make investment decisions on behalf of the organization. Known as the "traditional consulting model," this structure is best suited for organizations with staff that can handle investment operations, and a committee that has the expertise and time to dedicate to the decision-making process. While this model lacks direct accountability between the committee and consultant—as well as any specified investment roles—it is often used as a substitute for the decision-making function of an investment office.

OUTSOURCED CHIEF INVESTMENT OFFICER

OCIO adaptation accelerated after the stock market crash of 2008. Seeing how volatile investment periods can strain volunteer committees, nonprofit leaders determined they were relying too heavily on these committees to oversee the generous contributions of their donors. Many religious organizations determine that the role of selecting managers and tactically positioning the portfolio is a job best left to dedicated professionals. Becoming more and more popular amongst fiduciaries, OCIO services are typically designed for organizations who lack the staff dedicated to investment management, and to those that may have a committee who believes their time is best spent on strategic investment policy. A dedicated OCIO provider can offer all the resources of a full investment office for a fraction of the cost of retaining staff internally.

Committees often ask, "If we adapt the OCIO model, do we still have a role?" The short answer is yes. The responsibilities of a fiduciary do not disappear after engaging an OCIO-they become more focused. The main purpose of the committee is to set broad policy and strategic asset allocation ranges and ensure the OCIO understands investments are to be made in alignment with the values of the institution.

The other responsibilities of the staff and committee include ensuring the OCIO provider implements and manages the portfolio within the established guidelines found in the Investment Policy Statement. Importantly, as committee members are fiduciaries, it is critical the OCIO provider agrees to take on a co-fiduciary role in managing the investments.

Contrary to traditional consulting, committees who opt for OCIO services do not actively select managers, rebalance the organization's portfolio, or tactically manage asset allocation. Those responsibilities rest solely on the OCIO. For more information on OCIO services, please visit www.feg.com/insights/ocio-landscape.

RESPONSIBILITY MATRIX

◆ FEG recommends and monitors; client approves and implements

● FEG executes and monitors; client notified

RESPONSIBILITY	CONSULTING	OCIO
Spending Policy/Liabilities Analysis	◆	◆
Investment Policy Statement Development	◆	◆
Asset Allocation Policy	◆	◆
Portfolio Strategy	◆	●
Manager Selection	◆	●
Security Selection	◆	●
Daily Supervision	◆	●
Trading	◆	●
Rebalancing	◆	●
Risk Management	●	●
Performance Analysis	●	●
Reporting	●	●

Source: FEG

FINDING THE RIGHT FIT

FEG has been leading faith-based investment programs for more than 30 years. Decades of experience helps our consultants and advisors provide long-term stability, ongoing support, and a steady hand in turbulent market cycles. Our investment professionals are supported by a dedicated research team that actively sources faith-based strategies for potential inclusion in client portfolios.

With our experience and the wide variety of resources at our disposal, we work closely with clients as a traditional consultant or in an OCIO model. No matter the governance model, FEG creates customized faith-based portfolios focused on creating greater outcomes. Our work goes beyond the portfolio, building holistic, faith-based investment programs that include management of donor-advised funds, performance and values-based reporting, and proactive communication with all constituents.

FEG can resolve the presumed limitations of values-based investing by providing a result-oriented and faith-based investment program.

OUR DEDICATION TO FAITH-BASED INVESTORS

- Our Consultants and OCIO Advisors have decades of experience working with faith-based investors.
- FEG's expertise in governance allows us to construct values-compliant portfolios as a Consultant or OCIO Advisor.
- In addition to adhering to FEG's due diligence process, faith-based strategies must also demonstrate that they adhere to one our RI mandates.
- We can provide extensive resources to build a holistic, faith-based investment program including management of donor-advised funds, performance and values-based reporting, and proactive communication with all constituents.

CONCLUSION

No matter the governance structure, reflections of faith should always drive investment programs. Traditional consulting has been the most commonly used governance standard for faith-based organizations as it was the simplest way to create investment programs aligned with organizations’ values and beliefs.

If the OCIO model seems like a good fit for your program, the opportunity to engage a provider that can create a customized investment program inclusive of your religious values and environmental, social, and governance considerations is now a reality.

It is important to note that each governance structure has different associated fees. However, many organizations find that the presence of a high-functioning governance structure more than makes up for additional perceived fees paid to an outside advisor. To keep costs down, determine a comfortable fee budget for your institution and work with your advisor to find a balance between investment management and underlying manager fees.

Evaluating governance structure is a task many institutions overlook. In periods where markets rise and returns are steady, committees and their advisors are quick to make decisions in a “business as usual” fashion, which can lead to long-term decay of the organization’s investment program.

The investment management industry is constantly evolving, and new opportunities are often available to enhance returns, improve partnerships, and better align the portfolio with the mission of the institution. In the face of dynamic market events, like the COVID-19 pandemic, fiduciaries should spend time considering the effectiveness of their organization’s policies and structures and, more importantly, whether they can be improved upon for the future. With a marketplace that has more opportunities for religious values investing, strong governance can help fulfil your obligation as a fiduciary of faith.

If you are looking to review governance options for your religious organization, FEG is here to help. The following page includes a checklist to help you get started.

For additional assistance and a governance review, contact Matt Finke at mfinke@feg.com and begin working toward better outcomes for your religious organization.

FOOTNOTES

[1] https://givingusa.org/giving-usa-2018-americans-gave-410-02-billion-to-charity-in-2017-crossing-the-400-billion-mark-for-the-first-time/

A BETTER PATH FORWARD?

How do you determine which governance model is best for your religious institution? To start, institutions must create a robust process that includes input from all fiduciaries, including religious leaders, board members, and finance/investment committee members. Getting buy-in for the process is critical. In our experience, organizations that are open to potential changes will foster a better experience for participants while also creating better outcomes for the institution. The below list provides questions to help institutions begin the conversation on which governance model may be right for them.

COMMITTEE MEETINGS

- ☐ Generally, how productive are we and what do we accomplish in our committee meetings?
- ☐ Have meetings become routine or are we engaged in critical thinking?
- ☐ Are we keeping up with trends within the religious investment industry?
- ☐ How prepared are members for each meeting?
- ☐ As fiduciaries, are we comfortable in our ability to make critical decisions?

ENTERPRISE AWARENESS

- ☐ Does our committee have a full understanding of the institution's financial situation?
- ☐ Do we invest for long-term success or in response to short-term biases?
- ☐ Do we have an Investment Policy Statement that is understood and followed?
- ☐ How high is the turnover on our committee, and are our new committee member education procedures adequate?

PORTFOLIO MANAGEMENT

- ☐ Does our asset allocation reflect current market opportunities?
- ☐ When was the last time we changed our target allocations?
- ☐ Do we have procedures in place to manage short-term volatility?
- ☐ Do we have a fee budget for underlying investments?

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