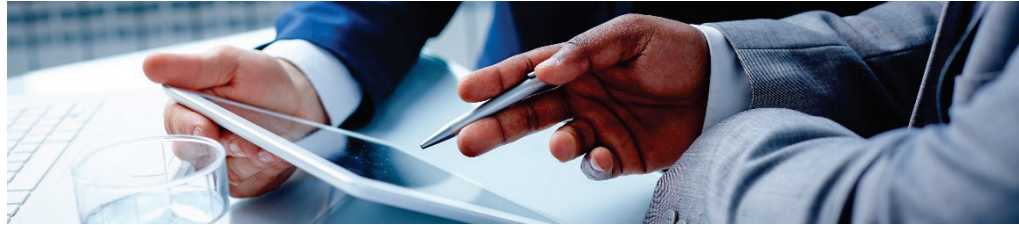


# GOVERNANCE SERIES



*This governance series is intended to help nonprofits and other organizations pursue success through understanding the role and obligations of a fiduciary. It is vital that both those who fulfill the role and those who appoint them understand their fiduciary duties for the overall health of an organization.*

## INVESTMENT COMMITTEES AND FIDUCIARIES – OVERSEEING THE RESPONSIBLE MANAGEMENT OF NONPROFIT ASSETS

If you find yourself a member of an investment board or committee, you are considered a fiduciary. Being a fiduciary is a very important role and one that has certain legal obligations.

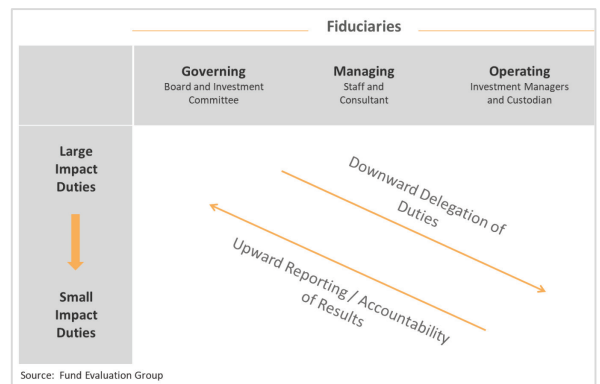
A governance structure is established to identify the specific roles and responsibilities of the fiduciaries entrusted to oversee and prudently manage an organization’s investment program.

What does an investment program governance structure look like?

As the illustration shows, it all starts with understanding that as an investment committee member, you are a “governing fiduciary” in charge of the “large Impact” decisions of your investment program.

Those decisions are delegated downward to your “managing fiduciaries” – typically a chosen staff person and/or consultant – for implementation.

Implementation likely includes selecting investment managers, or “operating fiduciaries,” to manage and execute



day-to-day decisions about what securities to hold, when to trade them, etc.

Operating fiduciaries report up to and are held accountable by Managing Fiduciaries. Likewise, Managing Fiduciaries share results (report) and are held accountable to the Governing Fiduciaries.

The next illustration shows two typical governance structures.

	<b>2-TIER COMMITTEE DRIVEN</b>	<b>3 TIER CAPTIVE or OUTSOURCED</b>
<b>Governing Fiduciaries</b>	<i>Board/Investment Committee, Staff, and Consultant (Supporting Fiduciary)</i>	<i>Board/Investment Committee</i>
<b>Managing Fiduciaries</b>		<i>CIO or Outsourced CIO (Consultant), and Staff</i>
<b>Operating Fiduciaries</b>	<i>Investment Managers Custodian Actuaries Other Vendors</i>	<i>Investment Managers Custodian Actuaries Other Vendors</i>

Under a 3-Tier system, the organization has a dedicated Chief Investment Officer (CIO) who typically works with an investment consultant to implement the large impact decisions of the committee including the discretion to hire and fire operating fiduciaries. Smaller nonprofits likely do not have a formal CIO role; rather assigning those duties to an employee(s) in their Finance or Accounting department. These nonprofits would employ a 2-Tier system where the committee retains investment manager hire/fire discretion with the advice of their consultant.

In FEG's experience, resources associated with an investment program – including dedicated, full-time employees – are highly correlated with the amount of assets a program is overseeing. Said another way: A program managing in excess of \$500 million in assets is more likely to have dedicated investment staff than one managing \$25 million.

Finally, a non-profit may choose to employ an Outsourced Chief Investment Officer (OCIO) who implements the large impact duties with the full discretion to hire and fire investment managers.

Consultants and OCIO providers lend governance an investment expertise, operational support, and many other benefits to the investment programs of nonprofits with which they partner. They provide the necessary capabilities otherwise prohibitively expensive for nonprofits to build internally.

Understanding a fiduciary's role and its obligations will be critical to your success and help you ensure that your organization has the financial wherewithal to fulfill its mission over the long term.

## QUESTIONS

- Where does your investment committee fit in the overall governance of your organization? To whom does your committee report?
- Have your roles and responsibilities been clearly delineated?
- Does your organization employ a dedicated investment professional(s)? What is their level of investment discretion?
- Does your nonprofit work with an investment consultant or OCIO provider?

## RESOURCES

- Need to understand the different types of OCIO providers? Check out FEG's *Navigating the OCIO Landscape*

#### DISCLOSURES

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201 East Fifth Street  
Suite 1600  
Cincinnati, Ohio 45202  
513.977.4400  
information@feg.com  
www.feg.com

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