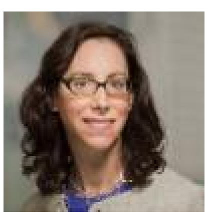
Ensuring your nonprofit's investment management policy works from end-to-end

By: Sharon Liebowitz, CEO and co-founder, Meritam Investment Advisors

Historically, small and mid-size nonprofits have struggled to find financial services that provide a fair deal, avoid conflicts of interest, and work efficiently. When it comes to investment management, in particular, there has been little guidance for this segment of the sector. So here are a few tips in preparation for fall.



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Investment management is about maximizing a specific resource, money, and in that way is similar to the other resources you manage in service of your mission. Investment management involves 3 main concepts: understanding the needs of your organization, understanding risk and return, and determining the best asset allocation to create the desired outcome.

1. Understanding your needs defines the financial requirements of your organization to fulfill its mission. It includes the money you have today, how much you need to meet your goals, and the time frame. These should drive your investment plan.
2. Risk and return is a critical tradeoff when dealing with financial markets. The organization needs to understand how much risk it's willing to take in order to get the returns it wants. Higher risk can mean more return but also the possibility of greater losses.
3. Asset allocation determines which assets to hold in the investment portfolio. The asset allocation should balance your organization's needs with its risk and return. For example, if you are able to assume more risk and have a long time horizon, you may allocate most of your funds into stocks. Bonds are more conservative.

So here are a few tips that we believe will help you make better decisions about your organization's investments:

1. Consider using passive investments – that is, products that track a market index. Few active managers beat the broad market over time. Passive investment products are also very cost efficient. And if you follow a passive strategy, you'll be in good company – Calpers uses many passive products and the Nevada state pension is exclusively passive.
2. Asset allocation accounts for more than 85% of a portfolio's performance. What this means is that it's important to determine the right allocation across asset classes, and rebalance regularly.
3. Costs matter. Excessive fees kill returns. If you're anticipating a 6% return and you're paying 3% in fees, your return is cut in half. Understand all fees before investing.

We see a wide diversity in the way that nonprofits view and manage their money. One of the most important things you can do as a leader is to make sure your investment plan works from end-to-end. An investment policy that documents your organizations needs and how it plans invest helps everyone understand the goals, what you want to invest in and why. This is especially important as board composition changes over time.

Incorporating the practices above – without swaying to market trends or changing board members – will guide your organization towards an efficient investment strategy that you can gain consensus on and that can remain consistent over the long term.

Sharon Liebowitz is the CEO and co-founder of Meritam Investment Advisors. Meritam is the pioneer in high performance, low cost investment strategies designed specifically for nonprofit reserves and endowments.