FREE RESOURCE BY TPA: ESTABLISHING AN INVESTMENT POLICY

10 QUESTIONS CHARITIES SHOULD ASK THEMSELVES AT THE OUTSET OF THEIR INVESTMENT STRATEGY

Purpose

What is the purpose of investing the money?

1. Why are you investing this money, and what are you attempting to achieve for your organisation?

2. Why is it better served earning a return in an investment fund than being put to use in the organisation?

Strategy

How does this capital influence the organisation's strategy?

3. Do you have any financial goals? Are you investing this money to achieve a certain financial goal for the organisation, or as a buffer? E.g., do you require an income return on the funds being invested, are you investing for capital growth or just for the preservation of the capital?

4. Will having more or less money invested change the strategic objectives of the organisation? Why, or why not? Can you afford to lose a percentage of the capital you are looking to invest?

5. Is the money going to be separate from the organisation's day-to-day operations, or will changes in its value dictate the organisation's short-term objectives?

Responsibility

Who is going to be responsible for the investment & asset allocation?
How much, and what are they going to be responsible for?

6. Who are you going to invest the money with? Will it be managed internally, externally or a combination of the two? Do you clearly understand the risks of each approach?

7. Should you invest all of the money? Why, or why not?

8. How are you going to manage accountability? How will you know when your internal, or external manager is underperforming or outperforming? (benchmark performance to a pre agreed index or cash rate).

Metrics

What non-financial metrics are important to you?

9. Should the money be invested for good, for a good financial return, or for both? How do you define what kind of company you want to invest in based upon its environmental, social and leadership impact? Are there any investments which you will not permit?

10. Is it important that your money is invested by people who best align with our values, or can achieve the best returns? How can you assess this?

FREE RESOURCE BY TPA: APPOINTING AN INVESTMENT MANAGER

10 CONSIDERATIONS FOR CHARITIES WHEN APPOINTING AN INVESTMENT MANAGER

1 Decisions

If it's not completely outsourced and there's an investment committee for the charity, this needs to address who's responsible for asset allocation decisions, not just choice of manager. In many ways this is the most crucial aspect.

2 Risk

What level of risk is your Board prepared to accept? Do you want zero risk with lower returns like investing in Government Bonds or are you prepared for a higher level of risk which will generate & allow higher returns and invest in equities?

3 Benchmarks

Are there details around agreed benchmarks, measurement of performance against benchmark (over various time frames) and when to exit as a result? Is there agreement that reporting will include (i) full disclosure of all costs, fees and expenses that impact on the portfolio directly or indirectly; and (ii) quarterly attention as to compliance with the terms of the Investment Policy?

4 Experience

Does the financial advisor have the necessary level of experience & history of working with other similar philanthropic organisations and have a thorough understanding of the level of diligence & trust that is required when dealing with such organisations? Ask for examples & references from other organisations that they have represented in the past.

5 Performance

Have you achieved a basic understanding of what type of realistic returns you would like to achieve on your investment portfolio and which asset classes you are prepared to invest into? Australian & International equities & Government Bonds, Fixed Income, convertible bonds, alternative asset classes such as Private Equity & Venture Capital investments.

6 Advisor/Manager

Do you need an investment advisor and investment manager (2 sets of fees) compared to investing directly with an experienced and scale investment manager that specialises in philanthropy? The upside from 2 sets of fees is that the advisor may be able to provide you with opportunities and discounted fees that you would not receive if you weren't a client of that investment advisor. Also most advisors have discounted or zero fees for Charitable funds. Ask for a discounted management fee as they will not necessarily provide it to you.

7 Involvement

How active do you want to be in the underlying investment strategy? Do you require the investment advisor to contact you every time they want to make a change to your investment strategy or are your happy to allow them to make investment decisions on your behalf up to a certain dollar amount? Do you have your own investment committee and does your process work with that of your investment advisor?

8 Currency

Are you prepared to take currency risks on your investment portfolio or do you require all investments to be made & hedged back into Australian Dollars? Do you have payments that need to be made in local currencies? Under those circumstances you should fully hedge out any currency exposure.

9 Documentation

Have you confirmed that the investment firm can provide your organisation with all of the necessary regulatory reports and documentation you require? How are those reports to be provided e.g. online or in the mail such as regular portfolio segmental breakdowns, annual tax requirements, portfolio performance reports, research reports etc?

10 ESG requirements

Are there any strong ESG (Environmental, Social or Governance) requirements or conditions that you must honour as part of the investment mandate? Examples are being unable to invest in Gambling, Alcohol & Tobacco or Carbon equities.