

Executive summary



The Non-profit Fiduciaries' Handbook

Second Edition



An express trip through what you need to know to effectively govern your non-profit's investment program in today's challenging market environment.

As a non-profit fiduciary, you have a difficult job. You need to ensure that your organization has the money, talent, experience, and resources to fund your non-profit's mission. And you need to do this in an ever-changing market environment. This means you need to be able to:

- Set clear and achievable goals
- Adapt quickly to rapidly changing circumstances
- Continually look for the appropriate balance between investment risk and return
- Find effective ways to implement and manage your chosen strategies

We know it's a lot to take on, which is why we have created *The Non-profit Fiduciaries' Handbook*. The handbook is designed to provide practical advice, planning tools, and best practices to help you successfully fulfill your responsibilities. This executive summary is designed to give you a preview of the information, advice, and resources outlined in the full handbook.

An overview of the handbook

The handbook comprises three sections:

Section 1 focuses on what it takes to be an effective fiduciary, which includes having a solid delegation structure and good governance practices.

Section 2 centers on defining your investment goals and objectives, and discusses the inputs you need to successfully set up your strategic asset allocation (SAA).

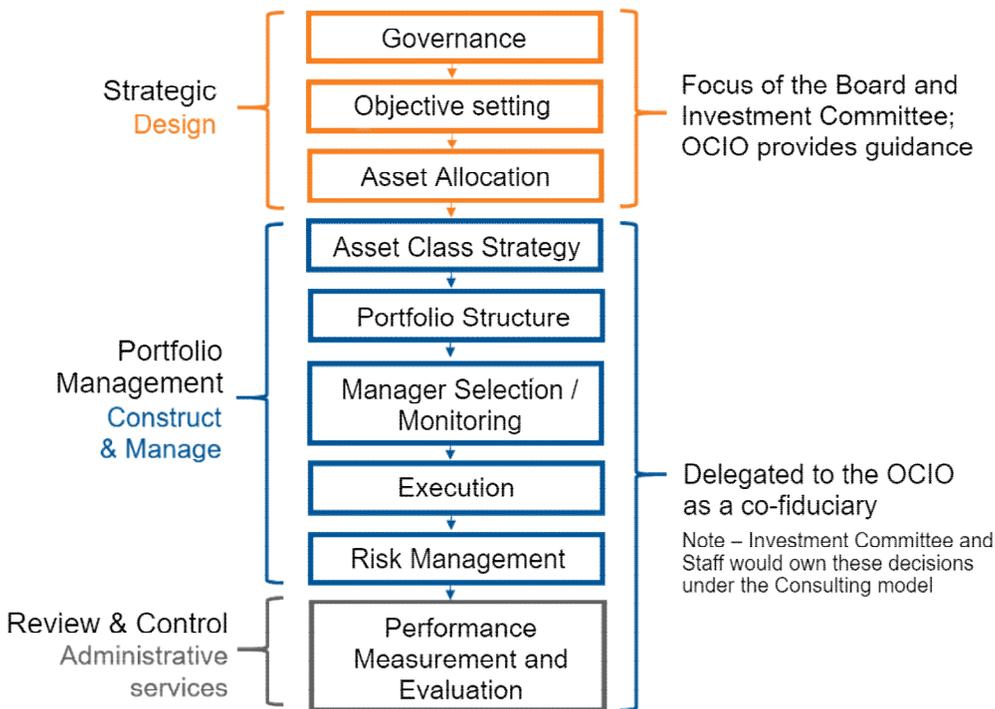
Section 3 completes the journey with a discussion of what you need to build a dynamic, outcome-oriented portfolio and an enterprise-wide risk management system.

Section 1: Being an effective fiduciary

The handbook begins with the aspects that you, as a fiduciary, are in control over. Being an effective fiduciary requires you to identify how decisions are made, who is most qualified to make them, and how they are monitored.

The fiduciary roadmap

Our fiduciary roadmap (below) walks you through the hierarchy of decisions that fiduciaries must make as they run their investment programs. As a fiduciary, you should always retain control of governance and objective setting, and you should have the final say on the strategic asset allocation (SAA) for your investment program. After that, you should delegate the remaining responsibilities to your OCIO provider and oversee the work they do on your behalf.



Effective delegation is about identifying the person, or entity, who is best equipped, internally or externally, to take on a certain responsibility. The handbook provides a more detailed overview of the delegation structures involved in overseeing your investment program. It also includes a framework to help you flag any areas of disconnect where you either don't have a clear decision-maker, or there are two entities responsible for making the same decision.

Section 2: Defining your investment goals and objectives

In this section, we discuss how you can help improve your investment outcomes and ensure that your investment program is aligned with your organization's goals.

To give you the best chance of meeting your return target in today's challenging growth environment, it is important that you gain a clear understanding of the four key levers that can design your strategic asset allocation (SAA) and help you effectively manage your investment program. These levers are:

1. Your spending policy.

It is critical for your organization's long-term survival that your spending is aligned with the returns generated by your investment program. If it is not, the long-term result may be a decline in your assets, which can potentially limit your capacity to support your organization's mission. The handbook explains the spending policy options available to you, allows you to evaluate the extent to which your organization depends on your investment program to meet its spending goals, and helps you determine whether your current spending policy is the right one.

2. Your liquidity needs.

While your organization may have a steady hand on its spending policy, without sound liquidity management, the results can be disastrous. A sound liquidity program means aligning the liquidity profile of your investment portfolio with your time horizon and cash-flow demands. If you do that—and the handbook contains a number of worksheets to walk you through the process—it can help you meet your spending obligations as they come due, while reducing the risk of mission-threatening investment losses.

3. Your risk tolerance.

Ultimately, your investment approach should deliver the returns you need at a level of risk you can survive. A critical first step is to determine your risk tolerance. The handbook includes a worksheet that can serve as a starting point for discussing this important subject with your board and investment committee.

4. Your desire for perpetuity.

Your organization's desired time horizon affects how you manage your investment program. Your board, investment committee, and staff should all be aligned on your time horizon, whether it's existing for as long as possible; prioritizing spending today and worrying about how long you want to exist later; or making a point of spending down your assets over time. The decision you make regarding your organization's approach to perpetuity affects how you approach the other levers.

The handbook discusses the impact these inputs will have on the SAA in detail. However, we also want to highlight that it isn't enough to think about the asset classes you're including in your SAA; you also need to think about the roles they will play in each of your asset pools. That way, you'll get a better sense of how each asset in your SAA can help you achieve your total portfolio outcomes.

The output—your strategic asset allocation

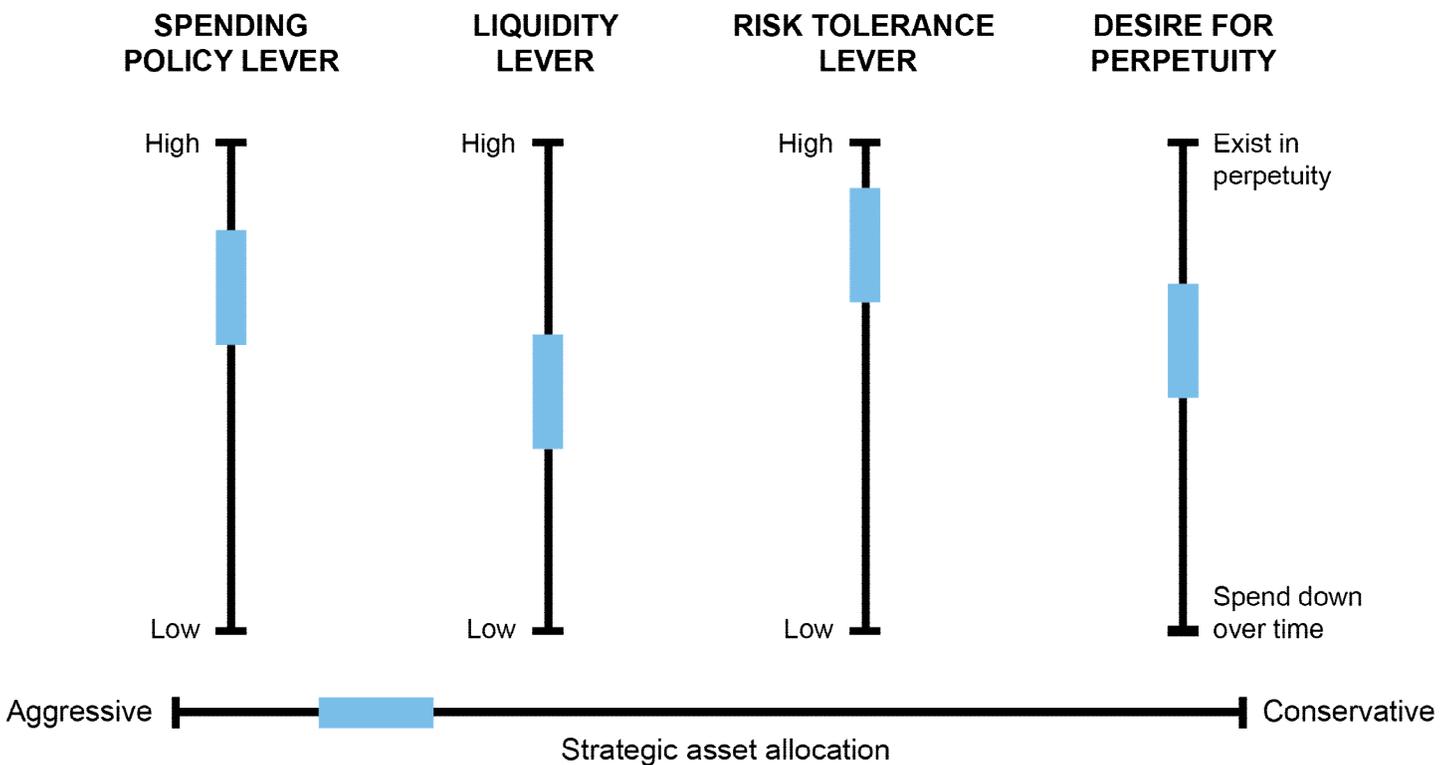
Your spending policy, liquidity needs, risk tolerance, and desire for perpetuity levers should be discussed and decided upon with the help of your OCIO provider. Then, your OCIO provider can help you build a custom, roles-based SAA for your portfolio.

Remember that the four levers don't operate separately; prioritizing one will have an impact on the others. Exhibit 1 demonstrates how prioritizing a high spending rate creates a domino effect—requiring a higher risk tolerance, providing lower total portfolio liquidity, and resulting in a more aggressive SAA.

At some point, you may need to decide which of the levers is most important to your organization, and then manage the remaining levers accordingly. If you find you aren't willing to trade off one lever for another, it may be time to re-evaluate your priorities. For example, if you have a high spending target but a low tolerance for risk, and need higher liquidity—you may want to rethink your spending target.

In the handbook, we provide a framework to help you identify key risks and where you stand. We suggest ways to categorize your risks so that you understand and appreciate the primary risks involved at each stage of the portfolio management process. We also offer guidance on how to measure, assess, and manage each risk, and include a worksheet to help you determine the strength (or weakness) of your current risk management program.

Exhibit 1



Section 3: Overseeing your dynamic, outcome-oriented portfolio

In the final section of the handbook, we talk about what it takes to build a dynamic, outcome-oriented portfolio, as well as a robust enterprise risk management system. There are several steps involved.



1.

You and your OCIO provider need to access the right managers.

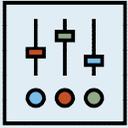
Make sure that your OCIO provider has the right resources and processes available to identify, hire, and manage the best managers for your investment program in every asset class.



2.

You and your OCIO provider need to incorporate the right strategies into your portfolio.

Work to ensure that you strike the right balance between implementation approaches, such as active, passive, and positioning strategies.



3.

In today's market environment, you are going to need to manage your portfolio dynamically.

Dynamic management is essential to ensuring that you meet your outcome-oriented goals within each of your asset pools, because it allows you to adapt quickly to the changing market environment. As a fiduciary, you have to set trading bands and allocate discretion to your provider. Your provider will also need specific skills and capabilities to be able to manage your portfolio dynamically and effectively, which the handbook discusses further.



4.

You will need to ensure that you have the right provider.

Your OCIO provider should do more than just combine the right managers and meet with you once a quarter to talk about performance against your goals. You also need to make sure that your OCIO provider can serve as a co-fiduciary and provide other value-added services to help maintain a successful investment program.



5.

You will need to build a robust enterprise risk management (ERM) system.

ERM is the process of identifying organizational risks that may affect your investment program, as well as investment risks that may have an outsized impact on your organization. Not understanding the major risks that may impact the broader organization can be less than optimal and has the potential to give rise to unintended consequences.

Some final takeaways

We've quickly covered a lot of ground in this executive summary. So, here's a brief rundown of what we see as the key takeaways:

- **Know who is responsible for what decision.**

You don't have to do it all, but you do need to steer, give direction, and intervene when shortcomings are recognized. Being an effective fiduciary involves effective delegation. The handbook provides a framework to help you identify and manage complex delegation structures.

- **Create alignment.**

Your beliefs, combined with the decisions you make about the four levers, as well as insight regarding the capital markets, must all align in order to construct an SAA that will help you meet your non-profit's mission.

- **Pay close attention to enterprise risk.**

Risk can make or break your ability to meet your organizational goals, but it is an aspect of portfolio management that is often glossed over. The handbook devotes an entire section to enterprise risk management and provides a framework for identifying key risks, implementing your risk management program, and evaluating how it all stacks up. Make sure your provider is dynamically managing your investment program in order to help capture short-term opportunities and mitigate risks.

- **Stand tall.**

Serving as a fiduciary for a non-profit is an important job. You've committed to this for the long haul, and we honor you for it.

Russell Investments is an asset manager who has over 35 years of experience working with non-profit organizations to help meet their investing needs. For more information about us, call [866-771-2966](tel:866-771-2966) or visit russellinvestments.com/non-profits

Want to learn more?

If this executive summary has whet your appetite for a deep dive into the full handbook, you can request your personal copy by visiting russellinvestments.com/nphandbook

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