3 key considerations for meeting your obligations

Community foundation staff leaders

As a leader of a community foundation, what keeps you up at night? Are you worried about providing for the immediate needs of your community? Or serving that community in perpetuity? Do you think about how you are embodying your community's values in your foundation's mission? Are you concerned about maintaining access to the resources you need to achieve your goals?

There is no doubt that you have a lot to think about. Properly stewarding your assets, ensuring access to financial resources, and monitoring funding and investment returns all play critical roles in the success of your organization. In addition, you have to balance accepting donor-restricted or -designated funds with raising unrestricted funds to provide flexibility in running operations and programs not covered by donor-directed grants. And often, you don't have enough time and resources to do all that you should to fulfill the fiduciary duties of prudent care and management of your foundation's assets.

Russell Investments has worked with community foundations over the years to help them achieve specific investment outcomes. In doing so, we continually inform these foundations about emerging best practices that can help them strengthen their investment programs, while freeing up internal resources so they can better focus on mission-aligned activities.

In this article, we discuss three key areas community foundation leaders and staff may consider in the process of meeting their day-to-day obligations. These are:

1. Staying abreast of regulatory and accreditation changes
2. Aligning your investments with your mission
3. Finding the right investment provider

1. Staying abreast of regulatory changes

Many community foundations have evolved to make use of diverse sets of investment solutions, where proper implementation requires expertise in investing, administration, and investment management—as well as continuing familiarity with regulatory guidelines.

A community foundation needs to comply with all federal and state regulations as they pertain to (a) maintaining tax-exempt status by qualifying as a 501(c)(3) public charity and (b) meeting the Department of Treasury requirements for classification as a community foundation. As you well know, these regulations aren't static. Staying abreast of and understanding the implications of changes in a constantly evolving regulatory landscape is challenging, yet key to your organization's continuing success.

2. Aligning your investments with your mission

A local place-based focus on a certain geographical area and/or demographic group is unique to the mission of a community foundation. This accentuates the focus on mission alignment, both from a philanthropic perspective (i.e., charitable giving/awarding of grants) and from an investment perspective (investing in initiatives that can have a direct impact on the local community).

Philanthropically, you have a wide range of options to choose from in determining how best to serve your community. At times, this breadth of opportunities can challenge your foundation's capacity to give. Because you are closest to the needs of your community, you play a critical role in channeling the grant-making efforts to the areas you believe will have the most impact.

From an investment perspective, one area community foundations have been exploring is mission-related investing, i.e., investing aligned with the mission of the community foundation. Community investing (or community-focused impact investing) has also emerged as a tool that a community foundation investor can use to align the investment program with the organization's broader mission. Some questions to consider before undertaking this approach include:

- Have you evaluated whether mission-related investing is appropriate for your organization, and if so, have you established a process for governing that decision?
- What is the potential impact of mission-related investing on your investment program and on your philanthropic giving program?
- Do you understand the various nuances of mission-related investing and the considerations for pursuing it?
- Are there opportunities for mission-related investing in your local community? If yes, what are they, and how might you access them?
- What additional resources (if any) will you need within your foundation to address mission-related or community investing issues?

Depending on how you approach mission-related (or impact) investing—from the philanthropic perspective or the investment perspective—the implications and nuances are different. For instance, from a philanthropic perspective, does engaging in community investing risk violating the requirements for your tax-exempt status? If the ensuing activities result in any unrelated business income, you need to ensure that you file and pay the necessary unrelated business income tax (UBIT). On the other hand, from an investment perspective, would there be any impact on the long-term investment return and outcomes for your foundation? There could be additional costs associated with engaging in mission-related investing, and those need to be evaluated in the context of the impact on the total portfolio.

In addition, if you're invested in commingled funds, execution of mission-related investments can be a challenge. It is important that you have a conversation with your leadership team and investment committee and work with your investment provider to determine the suitability and feasibility of the various approaches.

> *By working with a single provider of a diversified, customized, and dynamic investment solution that incorporates strategic advice, asset management, and implementation services—you can create a stronger investment program tailored to your targeted investment outcomes and the needs of your donors, potentially at lower cost.*

3. Finding the right investment provider

Typically, community foundations split their assets across multiple registered investment providers (RIAs), including banks, private wealth advisors, etc. While working with multiple providers can give you access to potential donor relationships over time, it may neglect opportunities to add value to the investment program through consolidating your assets with a single investment provider and receiving strategic and timely advice on your total asset base. Typically, engaging with multiple providers increases your operational burden, as you need to engage directly with each provider to conduct the appropriate due diligence, certify consistency and quality of risk management, and ensure sound investment processes across all the providers.

It is common for community foundations to utilize investment consultants. While the traditional consulting model delivers strategic advice and manager recommendations, it falls short on effective portfolio construction, implementation, and dynamic risk management. In constantly evolving markets, this model can be subject to a time lag between investment insight and the actual implementation, because of the typical investment committee decision-making procedures. It also doesn't provide the depth of investment expertise and the real-time risk management that is needed to capture excess returns in today's volatile markets, particularly if the foundation has in-house resource constraints.

Community foundations can benefit from cost efficiencies and economies of scale by pooling assets with a single investment provider. Use of a skilled single provider allows access to more sophisticated, institutional-quality investment strategies and to managers with higher minimum investment thresholds at reduced fees. This, in turn, can help you spend less on fees and more on your mission. By working with a single provider of a diversified, customized, and dynamic investment solution that incorporates strategic advice, asset management, and implementation services—you can create a stronger investment program tailored to your targeted investment outcomes and the needs of your donors, potentially at lower cost. This is commonly referred to as the "investment outsourcing" or "outsourced CIO" (OCIO) solution.

But how can you find the right investment outsourcing provider? When seeking a new provider, or evaluating your present provider(s), here are some best practices to consider. Is the investment provider and/or staff able to:

- Develop a strategic asset allocation for your total investment program, based on your goals and objectives, spending policy, risk/return profile, and liquidity needs?
- Construct a portfolio diversified across asset classes, investment styles, and managers that is designed to achieve your desired outcome?
- Deliver dynamic access to the best available investment strategies across a broad suite of product offerings?
- Continually assess the changing market environment and adapt your total portfolio, as needed, in real time, with a strong focus on risk management?
- Provide a menu of donor-advised fund options to meet the near-term and long-term philanthropy goals of your donors?

In addition, managing these investment offerings in line with your *donors'* objectives is paramount. You need access to efficient and easy-to-use back-office capabilities that simplify and streamline the work for you. Your investment provider should be able to provide back-end administrative services that, at minimum, include:

- Donor recordkeeping services and the ability to manage donor-advised funds
- Planned giving administration for charitable remainder and charitable lead trusts, pooled income funds, and charitable gift annuities
- Securities gift processing and administration, seamlessly managed with your investment account
- Audit assistance and regulatory reporting

In summary

We recognize that you, as a community foundation staff leader, play a valuable role in your community. Your responsibility is to provide value-added services and programs in your local community, while at the same time being confident that you are keeping up with regulations and managing your assets and investments in line with your fiduciary duty. Doing all of this on your own can be daunting—and with constrained resources, sometimes impossible. If you don't already have the resources required to do it all on your own, it is likely time to find the right investment provider—an OCIO with the expertise to manage your investment program, so that you can focus on your foundation's mission.

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