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Endowment & Investment Management for Poets and Prophets (and Pastors)

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Q and A

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CHAT

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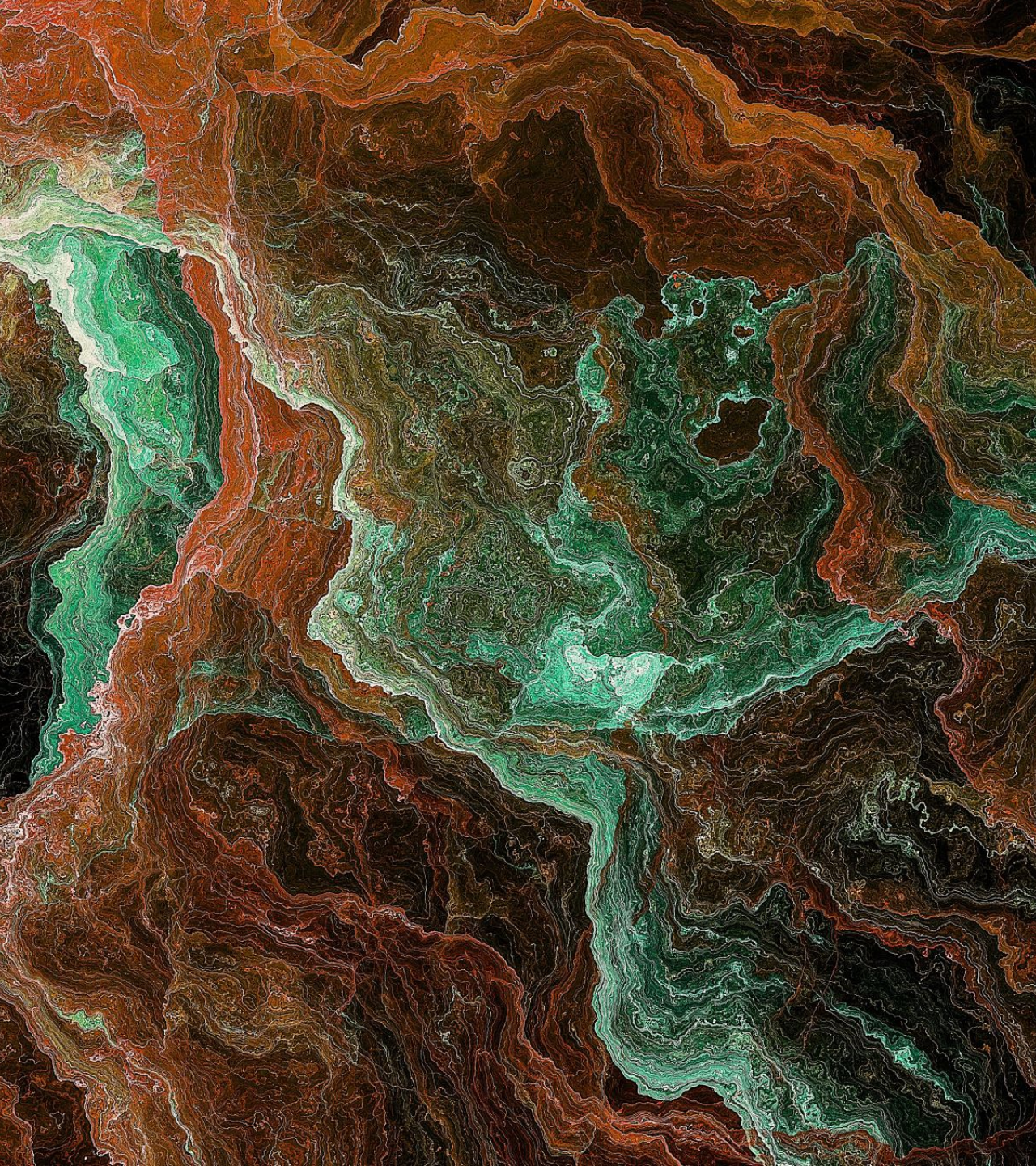
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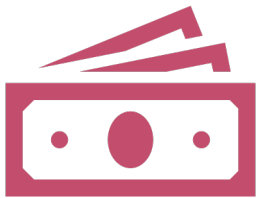
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Endowment & Investment Management for Poets and Prophets (and Pastors)

Why Should Poets, Prophets (and Pastors) Care about Endowment & Investment Management?



More Money for
Ministry



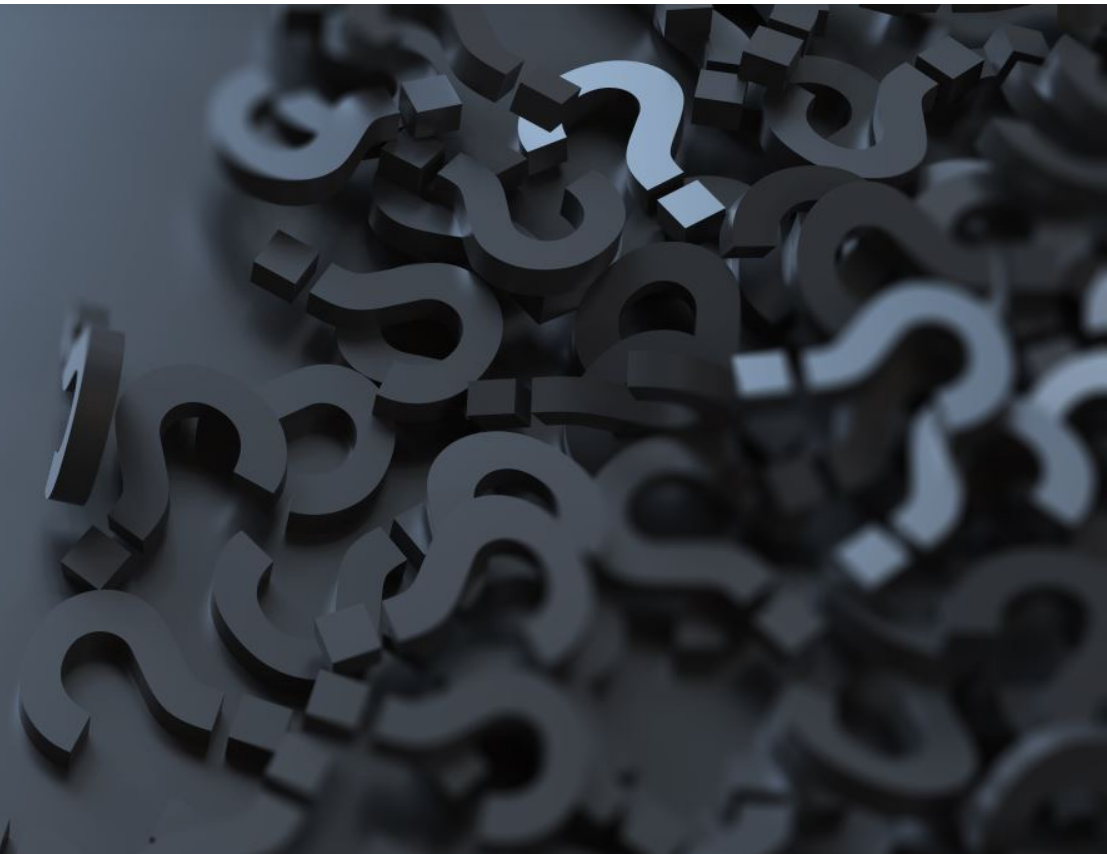
Reduce Conflict



Mission Focus

Agenda

- What are the right questions to ask?
- How do you evaluate the answers to these questions?
- What are common pitfalls and how do we avoid them?
- How do you bring theology into the conversation?
- Where can you find resources and allies?



Conclusions

You can only manage endowments and investments well if you have the right mix of the right people

Consider outsourcing to a well qualified partner aligned with your values

- Avoid investment pitfalls

- Free up talented people to contribute in other ways

- Focus on other important things





How do build a consensus?

Ask a lot of questions

Find allies within your
congregation

Bring in “reinforcements”

Do we know what we don't know?

Do we have an effective investment committee?

Include the right people

Meet regularly

Report on meetings

Are free from Conflicts of Interest

Have adopted an Investment Policy

Review the Investment Policy at least annually

Use common sense and discipline

Act prudently!

How do we honor generosity? What kind of assets are being invested?

Classification according to presence or absence of donor restriction

Nature of restriction: Duration, Purpose, or Both

Classification of unrestricted assets according to presence or absence of designations

Donors restrict. Restrictions are permanent.

Congregations designate. Designations can be changed.

What will the future bring? What is your time horizon?

The shorter your time frame, the greater the risk that any loss in value will not be recovered within the time frame.

The shorter the time frame, the more important it is to maintain stable value.

What is most important?

What is your investment objective?

For endowments:

To generate enough growth and income to allow moderate spending while keeping assets growing enough to keep up with inflation.

To maintain the inflation-adjusted market value of assets while providing a relatively predictable, growing stream of annual revenue

What is prudent?

What is your risk tolerance?

Risk and Return

How big of a loss would keep you up at night?

There are no risk-free options. Risk can be managed, but not avoided.

What do we learn from others?

What is your diversification strategy?

Diversification: Multiple securities in multiple categories

Diversification is the only “free lunch” in investing

You can increase returns and reduce risk, to a point

Know what you are investing in

Complexity is a risk



What is good?
How will you
measure results?

Benchmarks

Market based

Return objective

Peer comparisons

Returns cannot be assessed
independent of risk



Who do we trust? Do we trust markets or portfolio managers?

Indexing or passive investing trusts that markets reflect the pooled wisdom of investors

Active management trusts that wise investors can outsmart markets

What is good stewardship?
How are we keeping expenses
reasonable and assuring good value?

Fees are certain, returns are not.

If risk-adjusted returns are comparable, fees are the "tie-breaker"

How do we maintain harmony? What is our rebalancing approach?



What is rebalancing?

Why is it important?

How do we practice our faith?

How do we discern what is worthy or unworthy of investing in?



DO WE CARE ABOUT THE
SOURCE OF OUR ECONOMIC
RETURNS?



HOW CAN WE INCREASE
JUSTICE OR DECREASE
INJUSTICE?

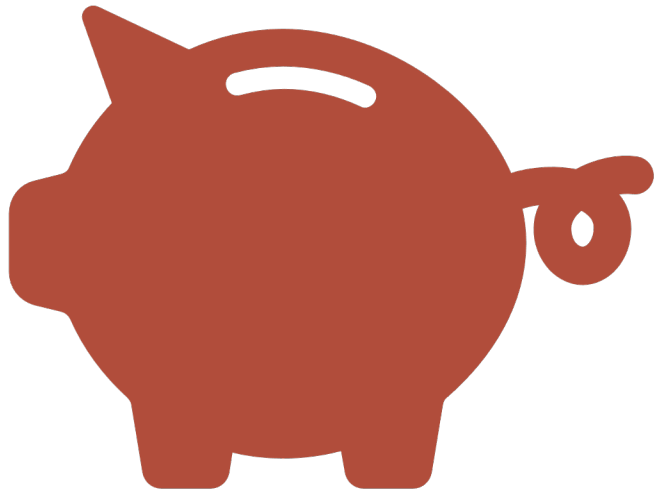


How do we tell our story? What should be reported and how?

Financial statements are stories told with numbers. People respond better to narratives.

- How much did we start with? Where did it come from?
- Were there any new additions? Where did they come from?
- How much did we harvest? What did we use it for?
- How did market movement change the market value of assets?
- How much did we end up with? What is it here for?

Investing Pitfalls



Chasing income yield. Investing only for high income without consideration of risk to principal.

Investing too conservatively and not keeping up with inflation.

Market timing.

Stock picking, not portfolio management.

Too much time on manager selection, not enough time on asset allocation.

More Investment Pitfalls

Picking mutual funds/fund managers based only on recent performance or Morningstar ratings.

Paying too much for active management.

Not rebalancing regularly. Buy low, sell high!





Discernment Pitfalls

Using endowments as a crutch to support operating expenses. Lack of discernment about purpose. Substitute for individual generosity.

Not using endowment as an opportunity to cultivate planned giving.

Not considering Socially Responsible Investing (SRI)

Not establishing spending policies:

What are we here for?

What is this money here for?



Oversight Pitfalls

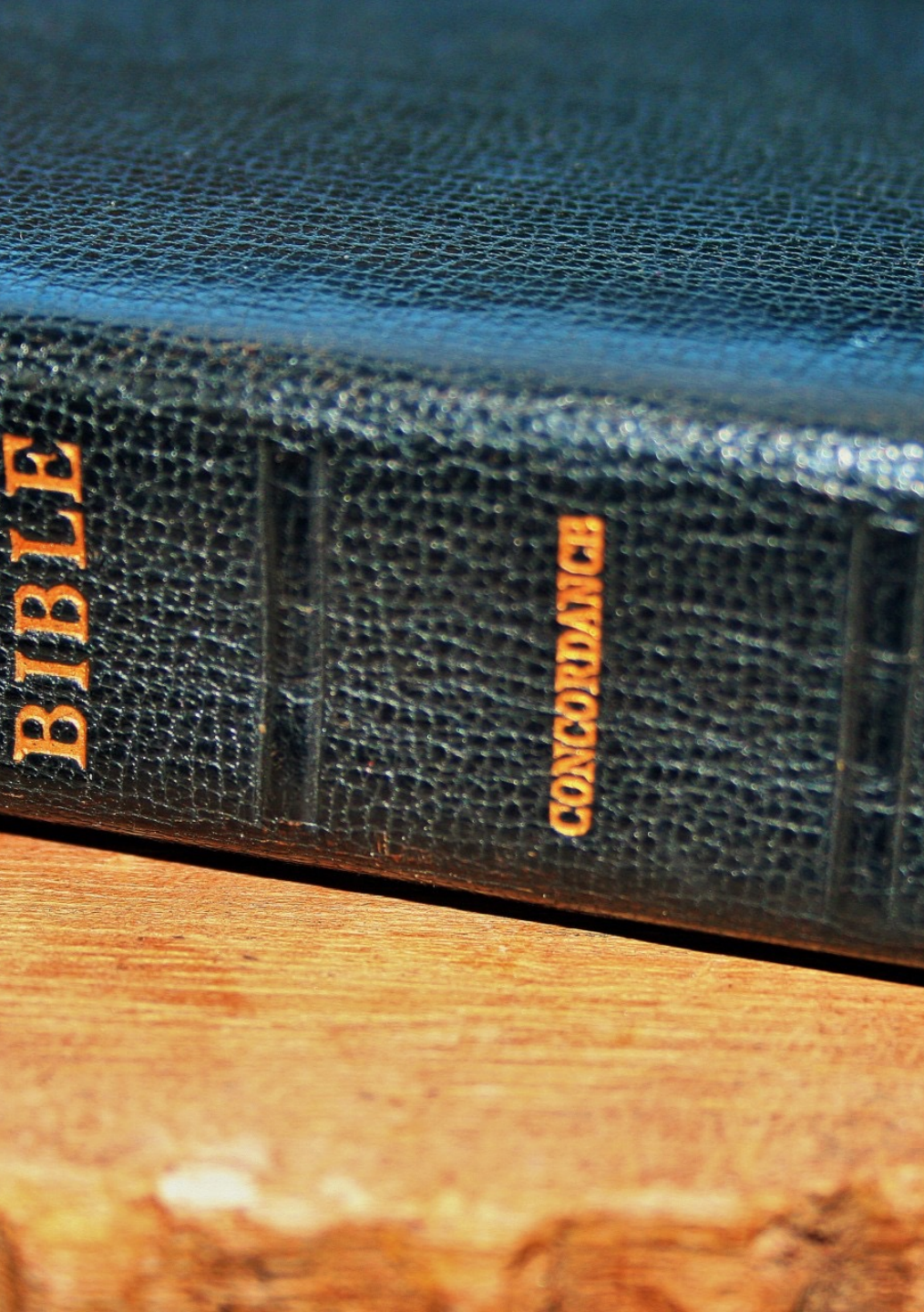
Confusing or commingling donor restricted assets and designated unrestricted assets

Not establishing total return investment and spending policies, missing out on benefits.

Not using a quarterly rolling average to determine distributions.

Not benchmarking performance or fees

Not documenting policies for investment, drawdown, spending and other aspects of endowment management.



What Does the Bible Say About Endowments?

Absolutely nothing.

Warning against “building bigger barns” – focusing on possessions rather than God

Stewardship – using blessings and gift for God’s purposes

Justice – Only justice leads to peace maintained without the threat of violence

Resources and Allies



Denominational Investment Funds

Eliminates many pitfalls

Sufficient scale to consider justice issues

Frees up talented people to serve in other ways



What's left to worry about?

Discernment pitfalls

Oversight pitfalls

Telling your story