10 questions charities should ask themselves at the outset of their investment strategy

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Purpose

What is the purpose of investing the money?

Q1 Why are we investing this money, and what are we attempting to achieve for our organisation?

Q2 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?

Q3 Do we have any financial goals? Are we 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?

Q4 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?

Q5 Will having more or less money invested change the strategic objectives of the organisation? Why, or why not? Can we afford to lose a percentage of the capital we are looking to invest?

Responsibility

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

Q6 Who are we going to invest the money with? Will it be managed internally, externally or a combination of the two? Do we clearly understand the risks of each approach?

Q7 How are we going to manage accountability? How will we know when our internal, or external manager is underperforming or outperforming? (benchmark performance to a pre agreed index or cash rate).

Q8 Should we invest all of the money? Why, or why not?

Metrics

What non-financial metrics are important to us?

Q9 Should the money be invested for good, for a good financial return, or for both? How do we define what kind of company we want to invest in based upon its environmental, social and leadership impact? Are there any investments which we will not permit?

Q10 Is it important that our money is invested by people who best align with our values, or can achieve the best returns? How can we assess this?

10 considerations for charities when appointing an investment manager

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Decisions

1

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.

Advisor/Manager

2

Do we need an investment Advisor and investment Manager (2 sets 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 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.

Risk

3

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

Involvement

4

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

Benchmarks

5

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 (j) quarterly attention as to compliance with the terms of the Investment Policy.

Currency

6

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

Experience & knowledge

7

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.

Documentation

8

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

Performance

9

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

ESG requirements

10

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