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How can a nonprofit board improve financial outcomes?

BY MICHAEL J. NATHANSON, JD, LL.M.



Standing, left to right: Liz Talbot, Stephen R. Stelljes, Nadine Gordon Lee; seated: Michael J. Nathanson

THE COLONY GROUP

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ASSETS UNDER MANAGEMENT

\$5 billion (approximately)

MINIMUM FEE FOR INITIAL MEETING

None required

FINANCIAL SERVICES EXPERIENCE

Michael, 25 years; Nadine, 35 years; Stephen, 22 years; Liz, 30 years

PRIMARY CUSTODIANS FOR INVESTOR ASSETS

Fidelity, Schwab, TD Ameritrade

COMPENSATION METHOD

Fixed fees (planning services); asset-based fees (investment services)

PROFESSIONAL SERVICES PROVIDED

Investment-advisory, money-management, planning and family office services

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n an economy in which governmental spending is increasingly strained, nonprofit organizations are forced to play a larger role in serving the greater good. Driven by boards that are dedicated to ambitious missions, today's nonprofits must simultaneously navigate dynamic financial markets and keep pace with the spending demands associated with fulfilling their missions.

In this context, board members should focus on three key areas to improve their ability to achieve favorable outcomes.

1. CLARIFY FINANCIAL GOALS

While a nonprofit's mission may be clear, its financial focus often centers on the short-term needs of the organization and its beneficiaries. Additionally, funding requirements for existing programs are often budgeted based on historic demands, which may not be

realistic. Establishing a clear, long-term financial plan will enable the organization to identify and support key priorities and appropriately allocate resources.

A board should engage its advisor in the creation of a well-defined, written investment-policy statement and a responsible asset-allocation strategy directly tied to the organization's mission and priorities. These documents serve as guideposts and result in a shared responsibility for linking the organization's mission and its investment portfolio.

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The investment marketplace is an ever-evolving ecosystem that requires constant adaptation.

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2. CONSIDER DELEGATING THE INVESTMENT MANAGEMENT PROCESS

Of late, many nonprofits have shifted to delegating their investment process to an outsourced provider, instead of attempting to undertake and/or control the process internally.

There are several key reasons for this trend, including:

- Lack of internal expertise, experience, and resources
- Desire to access a broader set of asset classes and managers
- Desire to improve risk management
- Need for greater objectivity and fiduciary oversight

Such a structure requires that the board choose an advisor with demonstrated institutional consulting and investment-management experience, who is supported by strong research and reporting capabilities.

3. CREATE A STRUCTURE OF FIDUCIARY EXCELLENCE

Additionally, many nonprofit boards have recently expanded their emphasis on sound fiduciary governance. The factors underlying this development include:

- Increased complexity in global markets
- Renewed focus on fiduciary practices and liability by regulators

Selecting an advisor who serves in a fiduciary capacity is critical; but simply being a fiduciary is not enough. The advisor should provide a robust fiduciary framework to

support key decisions in the areas of asset allocation, manager selection, portfolio construction and spending. Following the Global Fiduciary Standard of Excellence best practices, developed by fi360's Center for Fiduciary Studies, is a good start. Each of these practices builds credibility, improves consistency and creates a process that can endure changes in board membership and evolving organizational priorities.

The investment marketplace is an ever-evolving ecosystem that requires constant adaptation. Most nonprofits do not have the internal resources to keep pace with those changes while also focusing on their mission.

Outsourcing the responsibility for investment management and consulting is not just a trend; in many cases it is critical. Selecting an advisor who has deep experience in the nonprofit industry requires taking the time to understand organizational priorities and ultimately can create a legacy of fiduciary excellence that will help ensure a nonprofit's mission is sustained and accomplished for years to come. ●

ABOUT US

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