From Investment Consultant to Strategic Partner

How Community Foundations Could Utilize an Advisor's Experience Beyond Portfolio Management

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The Distinctive Needs of Community Foundations

A community foundation is a public charity focused on enhancing the well-being of individuals and families within a specific local area. By pooling financial resources from individuals, families, businesses and affiliated nonprofits, the community foundation can oversee funds which allow for grantmaking initiatives and may provide support to other impactful nonprofit organizations within the region. The ultimate goal is a virtuous cycle of re-allocating resources within the community, with funding supporting a wide variety of areas, including the arts, education, health, human services, the environment and more. In addition, community foundations regularly evaluate and address both immediate and long-term regional needs, serving as a "bridge" between donors and communities. They often work with local government agencies to direct resources effectively, while offering training and creating networking opportunities for local nonprofits.

Some characteristics of community foundations make them different from other nonprofit entities, and as such, the services they require may be more specialized. All community foundations:

- Serve *broad* charitable interests, seeking to benefit residents within a specific region.
- Collect contributions from *various* donors, including individuals, families, businesses and affiliated nonprofit (agency) organizations, to pool funding and streamline expenses.
- Connect local nonprofits and donors with shared missions to promote *local community improvement*.

Additionally, community foundations are recognized as public charities under the U.S. tax code, which means they are required to meet the public support test. The test ensures that most funding comes from a diverse donor base, including the general public, rather than a limited group of donors[1].

Due to the structure of community foundations, which link a broad range of donors with varying investment experience and objectives, these organizations should lean on their investment consultants to provide services beyond portfolio oversight, including guidance with fiduciary support, effective education and communication

[1] *Source: IRS – Public Support Test*

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for donors, volunteers and staff and assistance with oversight of special donor contribution structures, such as advisor managed programs.

Supporting Your Governance Process

Establishing an effective governance structure is paramount for effective oversight of an investment program, particularly for community foundations. Your investment advisor can take the lead by helping to design and implement governance policies that clearly define roles, responsibilities and decision-making protocols. Other tasks could include providing ongoing education for board, committee and staff on best practices and regulatory requirements, creating or reviewing an Investment Policy Statement (IPS) and adhering to a fiduciary governance calendar which establishes scheduled portfolio reviews, including performance evaluation, fee and spending analysis and ongoing discussions of market trends. A transparent and disciplined governance process not only demonstrates fiduciary responsibility, but also provides an opportunity to build donor confidence, which in turn may encourage continued financial support while reinforcing the foundation's role as a trusted steward of charitable assets.

Your investment consultant can further assist by staying up to date on marketplace trends for community foundations, attending conferences specific to these organizations and serving as a resource regarding the various ways to donate to the foundation, the tax benefits of different structures and scenarios where a vehicle is a potential fit for a donor.

Donor Communications and Education

Another key responsibility of an investment advisor in supporting a community foundation's mission is maintaining clear and consistent communication with staff and, in turn, donors. By acting as a knowledgeable resource, the advisor assists both groups in understanding the foundation's investment strategy, governance procedures and the tangible impact of their contributions. Effective communication is essential for both attracting and retaining funds, as it highlights the benefits of professional management and economies of scale. One of the most important ways an investment advisor can demonstrate this benefit is through providing timely investment reports to staff, which enables them to communicate these results quickly and effectively to stakeholders.

Your investment advisor may work hand-in-hand with the foundation's development office in other ways, including:

- supporting fundraising efforts
- answering staff or donor questions and/or writing blog posts
- providing customized reporting
- offering training to staff and

- adding website content to offer a clear overview of how funds are managed and ways to donate.

Financial updates prepared by the advisor can be featured in the foundation's newsletter, adding a personal touch which reflects the connection between giving and mission outcomes. Additionally, advisors could assist with direct donor engagement, from drafting letters on behalf of the development team, to hosting educational webinars, to the occasional face-to-face conversations with a donor. It is important for the community served by the foundation to know who the advisor is, understand the advisor's role and capabilities and consequently have confidence that the foundation's assets are being managed to fiduciary standards.

Oversight of Advisor Managed Programs

An important and growing initiative for donors seeking to support community foundations is the establishment of an advisor managed program, also referred to as advisor managed funds. Through this program, donors can set up a specific charitable fund for the benefit of the foundation and designate their local financial advisor to oversee the management of that fund's assets.

After the donor establishes the fund, the assets become the property of the community foundation. As such, it is necessary for the foundation, as the owner and fiduciary, to maintain appropriate oversight of the advisor-managed assets. The donor gains two significant advantages: access to the administrative and philanthropic expertise of the community foundation, while also preserving their established relationship with a trusted local advisor.

The investment consultant for the community foundation can support this program by working collaboratively on drafting the IPS, determining permissible asset classes and establishing asset allocation ranges, among other responsibilities. It should be acknowledged that the foundation's investment consultant may employ an approach that differs substantially from that of the donor's advisor, but such variations should be expected. The ultimate goal is to allow the donor's advisor to implement their investment strategy, provided it remains within reasonable guardrails from a risk/return perspective, always keeping in mind that all portfolios must conform to Uniform Prudent Management of Institutional Funds Act (UPMIFA) standards, emphasizing prudence, transparency and donor intent[2].

Additionally, the community foundation's advisor may undertake an active role in monitoring the advisor managed program to help ensure alignment with the organization's overall strategy, guidelines and objectives. With the assistance of third-party software solutions, your investment consultant can support effective oversight of asset allocations and strategic implementation. When investments are more complex, community foundation

[2] *Source: Uniform Prudent Management of Institutional Funds Act (UPMIFA), Final Act, Uniform Law Commission. Available at: https://www.uniformlaws.org/viewdocument/final-act-109?CommunityKey=043b9067-bc2c-46b7-8436-07c9054064a3.*

staff may be uncertain about what is included in the advisor managed program funds. Trusting the investment consultant to accurately account for these holdings can help ease staff workload and improve program oversight.

Your Advisor – Your Strategic Partner

Community foundations have diverse stakeholders that include the board, investment committee, staff, donors and other affiliated nonprofit (agency) organizations. To run an effective investment program, it is critical to understand the specific needs and expectations for each group. We believe your investment consultant should understand these needs and strive to build an investment program that best aligns with all stakeholders, despite their potentially different priorities. *Beyond* building that program, they should serve as a trusted resource, offering ongoing support through education for all stakeholders, governance guidance and effective communication, all of which may contribute to advancing the community foundation's mission.

At Fiducient Advisors, our goal is to serve as your strategic partner, aligning our interests with those of our clients. Over the years we have developed an in-depth understanding of the challenges faced by community foundations, as well as other nonprofits, and we can offer acknowledged expertise in guiding these organizations. If you would like to learn more about how our consultants can serve as an "extension of your staff," please contact any of the professionals at Fiducient Advisors.

About the Authors

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Eric serves institutional clients by providing counsel and guidance on portfolio design, asset allocation, manager selection, investment policy statements and performance monitoring. He has experience working with community foundations and other nonprofit organizations, helping them develop investment strategies aligned with their mission and long-term goals. Eric is a member of the firm's Investment Committee and Capital Markets Team and Endowments and Foundations Business Council. He joined the firm in 2013 as a Service Associate where he supported the firm's investment consultants in the areas of account administration and client servicing. Eric graduated with a BS in Financial Counseling and Planning from Purdue University. Eric is a CFA® Charterholder and member of the CFA Society of Chicago. He was captain of the Purdue University's Tennis Team and remains an "ace" on the tennis court.

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