



# 15 Ways to Enhance Donor Trust by Improving Your Investment Stewardship

*A Roadmap to Action for Nonprofit Leaders*

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# Fiduciary Path—Speakers



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Language of Nonprofit Fiduciaries™ : <https://fiduciarypath.com/download-language-of-nonprofit-fiduciaries/>

## Today we will discuss:

1. Today's Realities—Some Background Information
2. Building a Fiduciary Culture
3. 15 Ways to Get to Fiduciary

*“For nonprofits . . . reputation is everything.”*

MIT Sloan Management Review 2014. “How Nonprofit Organizations Use Reputational Risk Management.”

*“Only about half (47%) of nonprofit directors believe that their fellow board members understand their obligations as directors very well.”*

Stanford Graduate School of Business, 2015 Survey of US Boards of Directors on Nonprofit Organizations.

*In the US, only 60% of respondents said they trust charities – and a whopping 27% said they don’t.*

Source: June 2019 Gallup and Wellcome Trust

# Today's Realities—Lay Fiduciaries



The Center for Board Certified Fiduciaries™ (CBCF™) has completed a research report that estimates that 17 million lay fiduciaries control over \$26 trillion in the U.S <sup>1-8</sup>

[https://www.allodium.com/images/pdf/2021\\_Where-Are-the-Lay-Fiduciaries.pdf](https://www.allodium.com/images/pdf/2021_Where-Are-the-Lay-Fiduciaries.pdf)

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# Today's Realities—Lay Fiduciaries

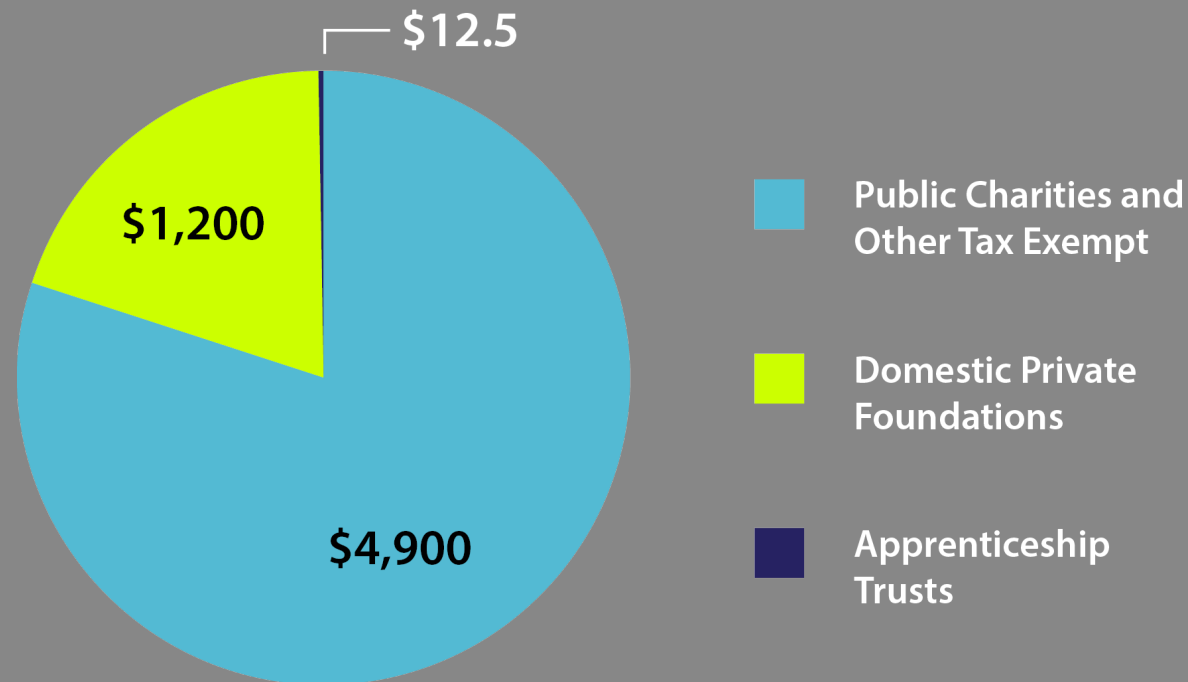


In 2016, there were at least 1,661,597 nonprofits registered with the IRS.<sup>2-3</sup>

Lay fiduciaries control at least \$6.1 trillion for nonprofits as of 2018.<sup>4</sup>

# Today's Realities—Lay Fiduciaries

## \$ Invested (Billions)

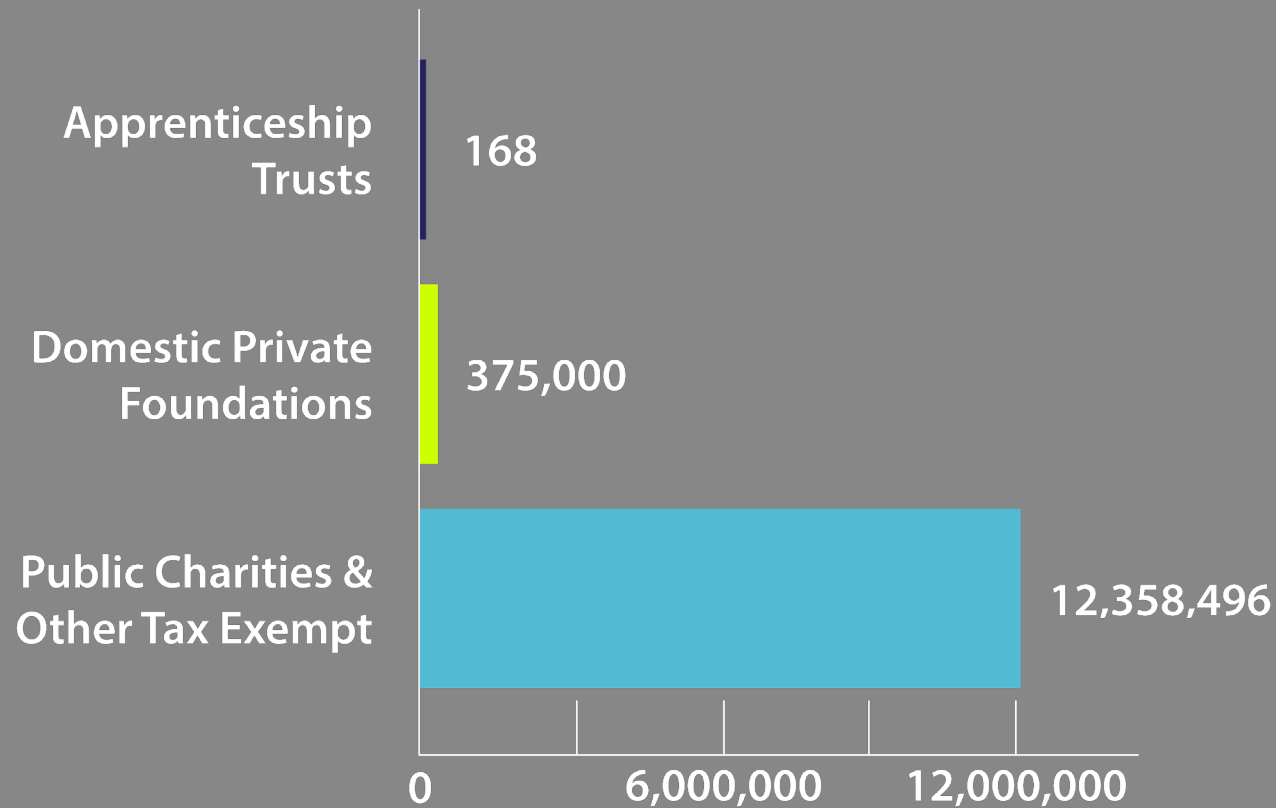


See References 1-8.  
For more information  
about how numbers  
were derived,  
access full report at  
[https://www.allodium.com/images/pdf/2021\\_Where-Are-the-Lay-Fiduciaries.pdf](https://www.allodium.com/images/pdf/2021_Where-Are-the-Lay-Fiduciaries.pdf)



# Today's Realities—Lay Fiduciaries

## Number of Nonprofit Lay Fiduciaries



See References 1-8.  
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# Today's Realities—Lay Fiduciaries



Type of Fiduciary Organization	Number of Organizations	Number of Lay Fiduciaries	Average Fiduciaries per Organization	\$ Invested (Billions)
<b>Nonprofits</b>				
Public Charities and Other Tax Exempt	1,544,812	12,358,496	8	\$4,900.0
Domestic Private Foundations	116,743	375,000	3	\$1,200.0
Apprenticeship Trusts	42	168	4	\$12.5
<b>Total Nonprofits</b>	<b>1,661,597</b>	<b>12,733,664</b>	<b>8</b>	<b>\$6,112.5</b>

See References 1-8. For more information about how numbers were derived, access full report at [https://www.allodium.com/images/pdf/2021\\_Where-Are-the-Lay-Fiduciaries.pdf](https://www.allodium.com/images/pdf/2021_Where-Are-the-Lay-Fiduciaries.pdf)

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# Today's Realities—Billions Squandered

## Annual Returns for Five Years Ending Dec. 2016

- 7.7% Foundation Median
- 9.04% Vanguard 70/30 Global Fund (any investor can purchase)
- 9.3% Top Quartile Foundations
- 6.3% Bottom Quartile Foundations



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# Today's Realities—What Does this Mean?



## Do Your Organization's Math

- +/-1% of \$100 million = extra \$1 million per year
- +/-1% of \$50 million = extra \$500,000 per year
- +/-1% of \$10 million = extra \$100,000 per year
- +/-1% of \$5 million = extra \$50,000 per year

Context: 1% = 20% of typical annual endowment distributions/gifting

## Common Donor Thoughts— Even If They Don't Directly Mention Them to You

- How can I be confident that you'll effectively and prudently manage my hard-earned donations?
- Can I really trust you to do the right thing:
- I don't want to be associated with waste, failure, scandal or bad press – want to be part of the best.

## Who Is A Fiduciary?

*Someone who manages the assets of another person and therefore a relationship of trust, confidence, and/or legal responsibility.*

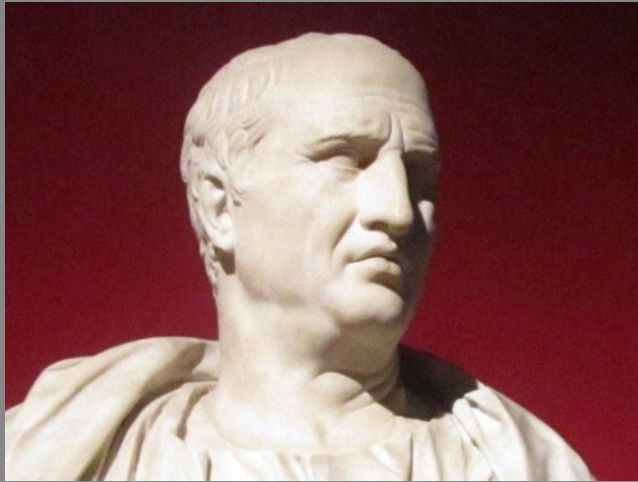


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## The Bottom Line

- If you're on the Board or in a decision-making role, you are a Fiduciary
- Fiduciary excellence leads to trust
- Trust leads to enhanced donor confidence and board engagement; leading to increased donations, financial security and mission success

## Why The Fiduciary Standard Exists



*“...[W]e cannot do everything ourselves;  
different people are more capable in different matters  
... [I]n cases where we ourselves cannot be present, the vicarious  
faith of friends is substituted; and he who impairs that  
confidence, attacks the common bulwark of all men, and as far as  
depends on him, disturbs the bonds of society...”*

*— Cicero, 106-43 BC,  
Oration for Sextus Roscius of Ameria*



## What Does a Fiduciary Culture of Excellence Look Like?



**Culture of Excellence:** Building a culture of investment fiduciary excellence begins with a shared vocabulary, prudent practices, systematic process, and knowledge that generates more for your mission whether it's charitable, community or retirement. Increased trust, effective management, enhanced reputation, more confident donors, *improved outcomes for beneficiaries of the mission.*

## Speak Fiduciary to Me

- Communication can be a funny thing— each group has its own special terminology and shorthand
- Fiduciaries are no different and *The Language of Nonprofit Fiduciaries*™ will help your team develop a common vocabulary.

## Some Quick Terms:

Custodian

AIFA®

AIF®

CEFEX Analyst

Portfolio

Assets

Investment Steward

# 15 Ways to Get to Fiduciary

## 1. Embrace Your Responsibilities as a Fiduciary

You are a fiduciary if you...

- Have the power to appoint other fiduciaries
- Provide professional advice
- Exercise discretion in decision-making



# 15 Ways to Get to Fiduciary

## 2. Fast Track to Fiduciary Excellence™

- Fiduciary Essentials Training
- Fiduciary Gap Analysis— Fiduciary Assessment
- Independent Third-Party Verification and CEFEX Certification



### PRUDENT PRACTICES FOR INVESTMENT STEWARDS



Fiduciary practices for persons who have the legal responsibility for managing investment decisions, such as trustees and investment committee members.

## 3. Know Who Is and Who Isn't a Fiduciary

People in roles that focus on execution of specific functions at the direction of others

- Common non-fiduciary service providers include:
  - Brokers executing transactions at the direction of a money manager
  - Custodians who administer tasks involved in holding, handling and safeguarding client assets
  - Accountants and auditors
- No power to appoint other fiduciaries, no professional advice is provided, do not act with discretionary authority

## 4. Three Fundamental Fiduciary Obligations

Loyalty

- Serve the best interest of the beneficiary
- Act in good faith
- Avoid or manage conflicts of interest

Care

- Act with skill, diligence, and prudence
- Document material information and evidence of sound decision-making processes

Obedience

- Adhere to the mission of the organization
- Understand and obey applicable laws and regulations
- Follow governing documents including bylaws, the Investment Policy Statement (IPS), and trust

## 5. Three Types of Investment Fiduciaries

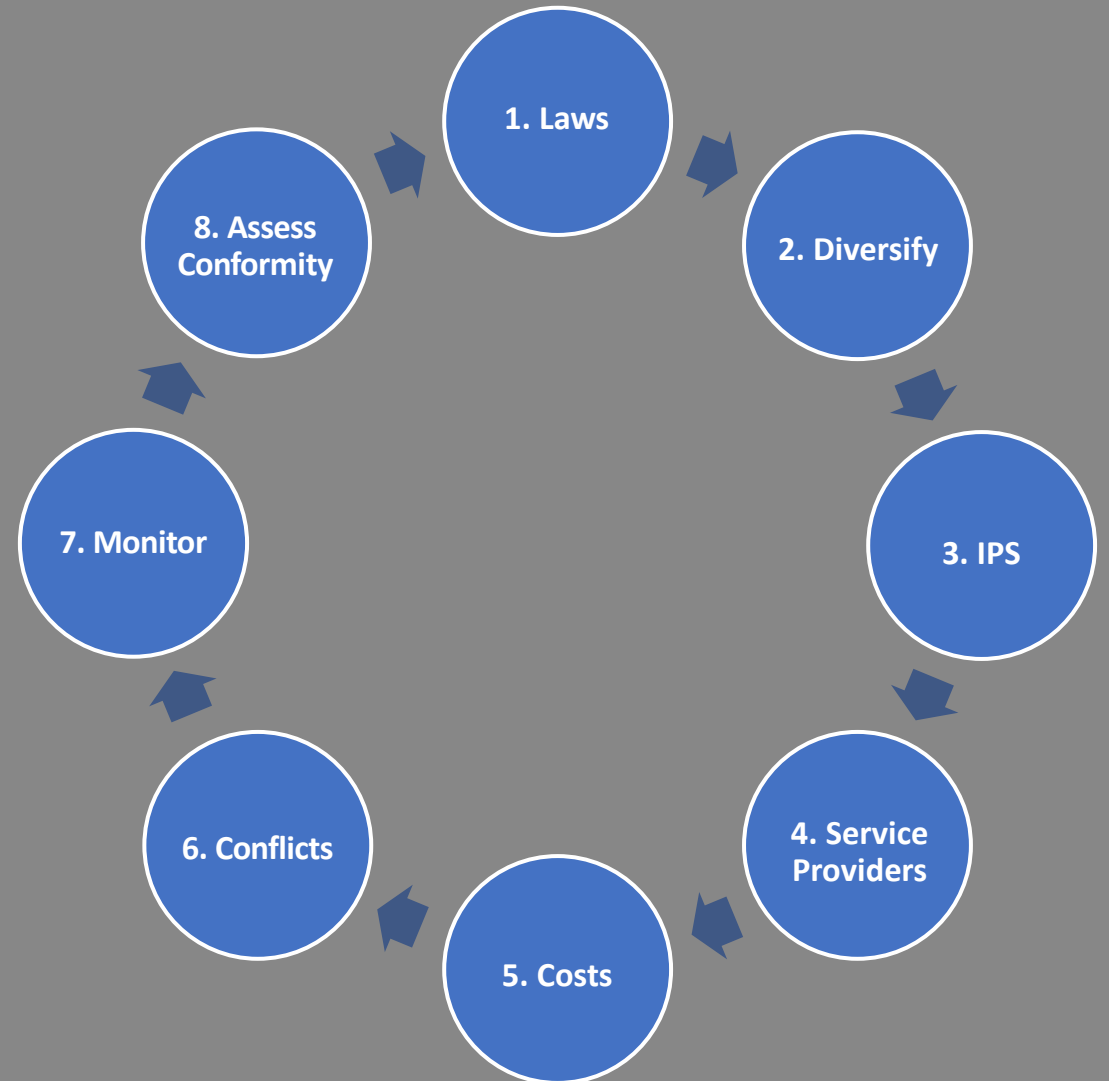
- Investment Steward
- Investment Advisor
- Investment Manager



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# 15 Ways to Get to Fiduciary

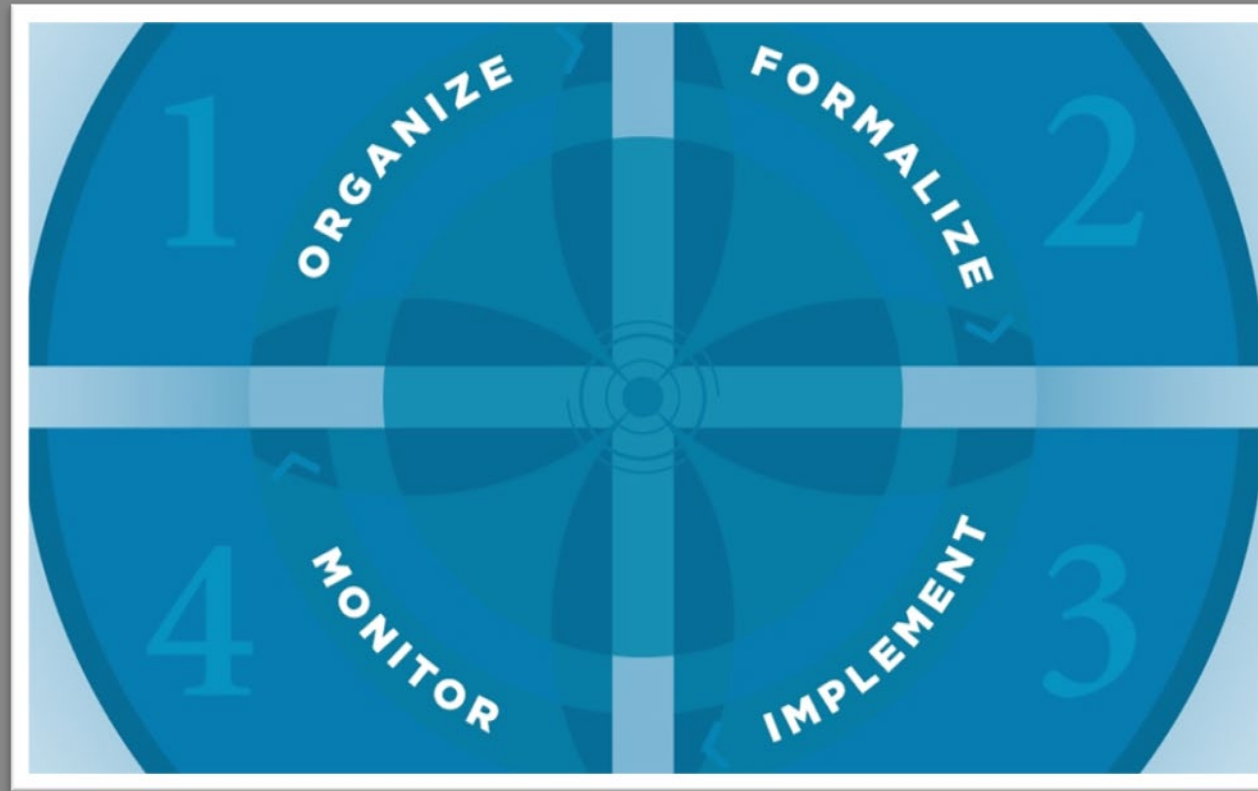
## 6. Use the Fiduciary Precepts





# 15 Ways to Get to Fiduciary

## 7. The Fiduciary Quality System



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# 15 Ways to Get to Fiduciary

## 8. Organize



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# 15 Ways to Get to Fiduciary

## 9. Formalize



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# 15 Ways to Get to Fiduciary

## 10. Implement



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# 15 Ways to Get to Fiduciary

## 11. Monitor



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## 12. Undertake a Fiduciary Gap Analysis

- An expert in Prudent Investment Processes and how they apply to your organization
- Accredited Investment Fiduciary Analyst® or CEFEX Analyst reviews your organizations investment processes

## Confidential Report

- Fiduciary best practices in place
- Opportunities for improvement
- What's missing – the gap analysis

## 13. Fix the Gaps

- Once you've identified gaps in your Prudent Practices, you've already gone a long way.
- Now a fiduciary expert can help you improve them or work with you to develop Prudent Practices where they are missing.

## 14. Get Independent Third-Party Certification

Independent Third-Party Verification of Fiduciary Excellence Promotes:

- Reduced regulatory and reputational risk
- Donor trust and confidence

Enhanced Donor Trust Promotes:

- Board confidence and engagement
- Increased donations
- Mission success and increased impact

Operational Impact

- Reduces fiduciary liability insurance premiums
- Continuous improvement cycle
- Attracts top talent (volunteers and staff who want to strive for excellence)



# 15 Ways to Get to Fiduciary

## 15. Ongoing Fiduciary Training

- Reinforce existing leadership and focus on incoming leadership
- Many nonprofit leaders do not realize that they have legal fiduciary responsibilities
- Fewer still are aware of the full scope
- *Most have never been shown how and what it takes to be a fiduciary*
- *Benefits of Knowledge: Better results for your organization powered by an enlightened fiduciary—you*



# 15 Ways to Get to Fiduciary



## Where Are You On the Fast Track to Fiduciary?

Resources FiduciaryPath™



Language of Nonprofit Fiduciaries™

<https://fiduciarypath.com/download-language-of-nonprofit-fiduciaries/>

Resources CEFEX



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# 15 Ways to Get to Fiduciary



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# 15 Ways to Get to Fiduciary

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A large, semi-transparent watermark of the Allodium Investment Consultants logo is centered on the slide. The logo is circular with a scalloped edge and contains the text 'ALLODIUM' at the top, 'INVESTMENT CONSULTANTS' at the bottom, and a large stylized 'A' in the center.

Thank You

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