FIDUCIARYPATH™

Delivering Fiduciary Excellence

LANGUAGE OF NONPROFIT FIDUCIARIES©

Key Terms Nonprofit Leaders Need to Understand

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Delivering Fiduciary Excellence

www.fiduciarypath.com

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ACCREDITED INVESTMENT FIDUCIARY

A professional designation that demonstrates an advisor or other person serving as an investment fiduciary has met certain requirements to earn and maintain the credential. Experience requirements are minimum of 2 years of relevant experience, a bachelor's degree (or higher), and a professional credential OR minimum of 2 years of relevant experience with a bachelor's degree (or higher) or a professional credential OR minimum of 8 years of relevant experience. Designees must satisfy the Code of Ethics and Conduct Standards, successfully complete the prescribed training program and pass the examination, as well as complete at least 6 hours of continuing education annually.

ACCREDITED INVESTMENT FIDUCIARY ANALYST (AIFA)

A professional designation that demonstrates an advisor or other person serving as an investment fiduciary has achieved the Accredited Investment Fiduciary (AIF) designation and has at least 8 years of relevant experience. Designees must successfully complete the prescribed training program and pass the examination, pass the AIFA Assessment, satisfy the Code of Ethics and Conduct Standards, and complete at least 10 hours of continuing education annually.

ACTIVE INVESTMENT MANAGEMENT

A portfolio management strategy where the manager attempts to outperform an investment benchmark, index or target return through his market research, knowledge, skill, trading, timing, security selection strategies and judgment.

ADMINISTRATOR

Sometimes called a Third Party Administrator (TPA) is a service provider generally hired by an employer to run many of the daily operations of the employer's benefit plans, including retirement plans. Today, many Administrators also provide "recordkeeping services" which include daily online reporting and accounting, as well as periodic statements of earnings, losses, and value for each plan participant account.

ASSET ALLOCATION

An investment strategy that attempts to balance risk and reward by apportioning a portfolio's different types of investments (asset classes) according to the investor's time horizon, objectives and risk expectations. Once determined, the Asset Allocation is an integral part of the investor's Investment Policy Statement.

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ASSET CLASSES

A group of financial instruments that have similar financial characteristics and behave similarly in the marketplace. Equities (Stocks), Fixed Income (Bonds), Cash and Cash Equivalents, and Alternative Investments are different Asset Classes which are typically combined in a diversified investment portfolio to manage risk in accord with the investor's objectives and investment time horizon. Asset Classes can be further delineated into Sub-Asset Classes which are grouped by common characteristics, while also having characteristics of the broader Asset Class. For example, US Stocks and International Stocks are Sub-Asset Classes of the Equities Asset Class. The Investment Policy Statement governs how various Asset Classes (and Sub-Asset Classes) will be utilized in the nonprofit's investment portfolio.

ASSETS UNDER MANAGEMENT (AUM)

Sometimes called Funds Under Management (FUM), is the total market value of all the investments for which the Nonprofit organization is responsible. The Investment Policy Statement(s) should state how these assets are to be managed.

BASIS POINTS (bps)

One hundredth of one percent; for example 1 basis point is 0.01% or 1 bps, and 100 basis points is 100 bps or 1.00%. Generally used to explain the expense ratio of an investment fund, such as one or a collection of mutual funds in an investment portfolio. Also used to express interest rates or to quantify the gain or loss of an investment portfolio over a stated time period.

BBB WISE GIVING ALLIANCE

A Charity Watchdog Resource which is a division of the Better Business Bureau designed to help donors make informed giving decisions while promoting high standards of conduct among charities that solicit contributions from the public. It doesn't rank charities but publishes free evaluation reports based on 20 Standards covering Governance and Oversight, Measuring Effectiveness, Finances, and Fund Raising and Informational Materials. It has produced reports on over 1200 national charities, and local Better Business Bureaus have produced reports on over 10,000 locally solicitating charities.

BOARD DIRECTOR

An individual who has been selected to serve on the governing body of a nonprofit organization. As such, Board Directors have decision-making authority and are fiduciaries tasked with steering the nonprofit organization toward a sustainable future by adopting sound, ethical and legal governance and financial management policies, as well as assuring the nonprofit has adequate resources to advance its mission.

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BONDS

A type of investment where the investor gives a set amount of money to a government or business for a specific period of time at a set interest rate. Bonds come at varying degrees of risk dependent upon the Credit Quality of the issuing government or business. For example, a list of Bonds ranked from low to higher risk would include Treasury Bills (T-Bills), Treasury Notes, Treasury Bonds, Investment-Grade Bonds, and High Yield (Junk) Bonds. With these types of investments, the investor does not have an ownership interest in the issuing governmental or business entity; only a "loanership" interest. Bonds are generally considered to be of lower risk than Stocks.

BROKER

Sometimes called a Registered Representative, is a person or firm who arranges financial transactions between a buyer and a seller, for a commission when the deal is executed. If the Broker is acting on his own behalf as the Seller or Buyer, he is known as a Principal Party to the transaction. An individual who is a Broker, is an employee of a Broker Dealer, and owes a Duty of Loyalty to his employer. You can obtain information on an individual Broker's employment history, regulatory actions, and investment-related licensing information, arbitrations and complaints at www.brokercheck.finra.org.

BROKER DEALER (BD)

A person or firm that engages in the business of trading (buying or selling) securities for it's own account or on behalf of it's customers.

CASHFLOW

The incoming and outgoing of cash representing the operational aspects of an investment portfolio including contributions, distributions, interest earned, dividends paid and actual realized capital gains (or losses). Positive Cashflow is desirable since Negative Cashflow can reflect that more money is "flowing out" of the portfolio than coming in.

CEFEX ANALYST

A professional designation signifying expertise in CEFEX assessment methodologies and certification criteria with extensive practical, academic and professional consultation as an industry expert. All CEFEX Analysts are Accredited Investment Fiduciary Analysts (AIFA). They perform Fiduciary Assessments and provide guidance to the independent fiduciary oversight process.

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CEFEX CERTIFIED

An independent third-party designation certifying that the certified entity engages the best fiduciary practices and adheres to the Global Fiduciary Standard of Excellence. Types of certifications include Investment Steward, Investment Advisor, Investment Manager, ASPPA Administration Services, ASPPA Recordkeeping Services, Fiduciary Advisor, and Investment Support Services. CEFEX Certified entities manage over $500 Billion and are located among 8 countries and 4 continents.

CENTRE FOR FIDUCIARY EXCELLENCE (CEFEX)

An independent, international organization that assesses, audits and certifies investment stewards, investment advisors and investment managers as adhering to Fiduciary Best Practices and the Global Fiduciary Standard of Excellence. As a framework for addressing fiduciary responsibilities, CEFEX has developed the Fiduciary Quality Management System (FQMS) which is modeled after the International Organization of Standards (ISO) 9000 Standard for Quality Management Systems. CEFEX Assessments are evidenced-based and all work is reviewed by the CEFEX Registration Committee to ensure impartiality and consistency.

CERTIFIED FINANCIAL PLANNER (CFP)

A professional designation administered by the CFP Board signifying that designees have met rigorous professional standards and adhere to principles of honesty, integrity, competence and diligence in dealing with clients. Designees have at least 6,000 hours of professional experience related to the financial planning process, complete the appropriate college-level training course and hold a bachelor's degree or higher, and pass the requisite exams. Designees are required to successfully complete 30 hours of continuing education every two years, including 2 hours of CFP Board-approved Ethics CE.

CERTIFIED FUND RAISING EXECUTIVE (CFRE)

A professional designation, administered by the CFRE International and accredited by the National Standards Institute (ANSI) under the ANSI/ISO/IEC 17024 standard for personnel certification programs as the world's only accredited certification for philanthropic fundraising professionals. Designees must successfully complete continuing education requirements.

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CHARITY NAVIGATOR

A Charity Watchdog Resource that provides a qualitative rating by assigning the charity 0 to 4 Stars, utilizing information from the charity's Form 990 in an effort to assess the organization's Financial Health, Accountability and Transparency. Charities are grouped in broadly-defined Categories and more narrowly-defined Causes within each Category. To be eligible for a rating, the charity must have at least $1 million in revenue for two consecutive years, been in operation for at least seven years (with Form 990's), be based in the US, have at least $500,000 in public support (must account for at least 40% of the organization's total revenue for at least two consecutive years), have at least 1% of its expenses allocated to fundraising for three consecutive years, and at least 1% of its expenses allocated to administrative expense for three consecutive years. Not all qualified charities are rated and Charity Navigator notes if an unrated charity is "potentially eligible for a rating."

CHARITY WATCHDOG RESOURCES

Nonprofit organizations that provide information, reviews and ratings on charities. The type of data provided and ratings differ among the different entities which include the BBB Wise Giving Alliance, Charity Navigator, Charity Watch and GuideStar. All purport to provide useful information to help donors make better-informed gift-giving decisions.

CHARITY WATCH

A Charity Watchdog Resource that provides a qualitative rating by assigning the charity a grade of A to F, after evaluating the organization's audited financial statements, tax forms, annual reports, state filings and other documents for the reviewed fiscal years to determine the Percent of Total Expenses Spent on Programs (75% or greater is an A- or higher Grade) and the Cost to Raise $100 ($12-$15 or less is an A- or higher Grade). Reports include information on the charity's governance and transparency, top salaries, analyst's notes and related external articles published about the charity.

COMMISSION

Manner of compensating a salesperson for the sale transaction, typically stated in terms of a percentage of the transaction price. For example, if a broker sells an investment priced at $10,000 and with a 6% commission, the broker receives $600 as compensation for the sale. Not all commissions are transparent. For example, a broker may "mark up" the price of a bond he's selling by adding his commission into the purchase price without designating that his compensation has been "baked into" the bond price.

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CONFLICT OF INTEREST POLICY

A written document approved by the nonprofit's Board of Directors that provides guidelines and procedures to manage and avoid actions that would benefit the private interests of a Board Member or Staff Member. Part of a Fiduciary's Duty of Loyalty is the responsibility to avoid or manage any conflict of interest in a manner that best serves the interests of the nonprofit and its beneficiaries. The Policy should include the affirmative duty to disclose an actual or possible conflict of interest including direct or indirect compensation, how the Board will determine if a conflict exists, procedures for addressing the conflict of interest and any violations of the Policy, and documentation of these items. The Policy should be periodically reviewed to assure compensation arrangements are reasonable and that the organization's actions conform to the Policy. Each Fiduciary should annually sign a statement that he has received a copy of the Policy, has read and understands it, agrees to comply with the Policy, and understands that the nonprofit must engage primarily in activities to accomplish one or more of its tax-exempt purposes.

CUSTODIAN

A financial entity that holds its customer's investment securities (held in electronic or physical form) for safekeeping in order to minimize the risk of theft or loss. For example, Schwab provides Custodial Services. Generally Custodians do not act as Fiduciaries.

DISCRETIONARY AUTHORITY

Sometimes called Discretionary Investment Management, generally granted in writing by the client or owner of the investments, is the power to independently make investment management decisions and investment transactions without securing further permission or authority from the client or owner of the investments. Someone granted discretionary authority is held to a fiduciary standard for the benefit of the client, owner and beneficiaries of the investments.

DIVERSIFICATION

The process of allocating capital among different types of investments (typically Asset Classes) in a way that reduces the exposure to any one particular asset, investment or risk. "Not having all your eggs in one basket." Different types of assets go up and down at different times (and therefore have "negative correlations"). The combination of these various assets (and corresponding levels of risk) can often reduce the risk of the "entire bundle" or investment portfolio compared to the risk and market volatility of the various assets. Investment Stewards, as Fiduciaries, are required to diversify investment portfolios in order to manage risk.

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DUALLY REGISTERED ADVISOR

An individual who is registered as both a Registered Representative of a Broker Dealer and as an Advisor Representative of a Registered Investment Advisor. Each registration is subject to certain requirements and can sometimes result in conflicting duties and responsibilities. In order to avoid confusion, a nonprofit should obtain a written disclosure statement from such an advisor that specifies his fiduciary and non-fiduciary services, as well as which regulatory requirements will control.

EXCHANGE TRADED FUNDS (ETFs)

An investment fund traded on stock exchanges, much like individual stocks. It can hold assets such as stock, commodities or bonds. Most ETF's track an Index, such as a Stock Index or Bond Index. ETF's may be attractive because of their low costs, tax efficiency and stock-like features. ETF's can be traded at Market Value throughout the trading day where Mutual Funds are traded only at the Market Value at the end of the trading day.

EXPENSE RATIO

The annual fee that all mutual funds or exchange-traded funds charge their shareholders. Generally stated as a percentage of the managed assets (in Basis Points) which is deducted to cover management fees (and profits), administrative fees, sales fees, operating costs, trading expenses and all other asset-based costs incurred by the fund.

FEE FOR ADVICE OR INVESTMENT MANAGEMENT

Also known as the Management Fee is the amount charged for services provided by an Investment Advisor and an Investment Manager. Fees are typically charged as a percentage of Assets Under Management (AUM); for example 1% or 100 Basis Points (bps) per year. In some instances, fees are a designated dollar amount, rather than a percentage of AUM. Fee payment is typically made in quarterly installments.

FIDUCIARY

Someone who manages assets on behalf of others, and is therefore in a special position of responsibility and trust. In the context of Nonprofits, it's the Board of Directors, Executive Officer, Executive Staff and all others who have decision-making authority in carrying out the objectives of the organization, including the management of its assets for the benefit of the organization's beneficiaries. Nonprofit Fiduciaries have Three Fundamental Fiduciary Obligations: a Duty of Loyalty, a Duty of Care and a Duty of Obedience.

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FIDUCIARY FILE

An easily accessible and organized set of documents that define what the nonprofit's Fiduciary Process looks like and demonstrates that it is being implemented. Documents included are: Trust and Organizational Documents including Articles of Incorporation, Certificate of Registration and Bylaws; Board and Committee Agendas and Meeting Minutes; Tax and Accounting Documents; Investment Policy Statements; Custodial and/or Brokerage Statements; Investment Management Reports; Service Provider Agreements; Asset Allocation Studies; and Due Diligence Files on Funds, Investment Manager and Other Service Providers.

FIDUCIARY QUALITY MANAGEMENT SYSTEM (FQMS)

A framework for addressing fiduciary responsibilities in the investment process. Developed by CEFEX, it is modeled after the International Standards Organization (ISO) 9000 Standard for Quality Management Systems which stresses a process-driven approach and the concept of continual improvement. Four major steps comprise the FQMS: Organize, Formalize, Implement and Monitor.

FINANCIAL ADVISOR

Sometimes called Financial Consultant, this is a common title used by many in the financial services industry, including brokers, insurance agents and financial planners, who attempt to assist clients manage or invest their money. Often used to imply a higher level of expertise. Different advisors or consultants may have different securities or insurance licenses or titles. Although some may serve their clients as a fiduciary, most do not. If they serve as a fiduciary, they will generally provide a written statement of their fiduciary services and responsibilities.

FINANACIAL CONSULTANT

Sometimes called Financial Advisor, this is a common title used by many in the financial services industry, including brokers, insurance agents and financial planners, who attempt to assist clients manage or invest their money. Often used to imply a higher level of expertise. Different advisors or consultants may have different securities or insurance licenses or titles. Although some may serve their clients as a fiduciary, most do not. If they serve as a fiduciary, they will generally provide a written statement of their fiduciary services and responsibilities.

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FORM 990

Federal Government's annual information return for tax-exempt organizations which must be filed on or before the 15th day of the fifth month after the close of the nonprofit's taxable year. For example, if the taxable year ends December 31, the form must be filed no later than May 15. Nonprofits with gross receipts of less than $200,000 and total assets at the end of the year less than $500,000 can choose to file Form 990-EZ. Nonprofits with gross receipts of $50,000 or less file Form 990-N. Form 990 includes numerous questions regarding the nonprofit's governance practices including the number of Board Members who are "independent," if the organization has conflicts of interest and whistleblower policy statements, if the organization has a record retention policy, if the all Board Members received a complete copy of the Form 990 before it was filed with IRS, and if the organization follows a specific process to determine CEO and key employees' compensation and expense reimbursement.

FUNDS UNDER MANAGEMENT (FUM)

Sometimes called Assets Under Management (AUM), is the total market value of all the investments for which the Nonprofit organization is responsible. The Investment Policy Statement(s) should state how these assets are to be managed.

GLOBAL FIDUCIARY PRECEPTS

Legal principles that provide a sound foundation for prudent decision-making. The eight Global Fiduciary Precepts are: (1) Follow Laws and Governing Documents, (2) Diversify to Manage Risk and Return, (3) Prepare and Follow an Investment Policy Statement, (4) Prudently Select Fiduciary and Non-Fiduciary Service Providers, (5) Control and Account for Costs, (6) Avoid or Manage Conflicts of Interest, (7) Monitor Service Providers, and (8) Monitor and Assure Conformity to Fiduciary Obligations.

GLOBAL FIDUCIARY STANDARD OF EXCELLENCE

An internationally recognized principle-driven set of 21 Prudent Fiduciary Practices, substantiated in law and regulations, guided by eight fiduciary precepts, comprising 78 criteria, that are the foundation for the trust placed in investment fiduciaries by their clients or beneficiaries.

GUIDESTAR

A Charity Watch Resource that provides information on over 1.8 million charities obtained from public sources and the respective charities including IRS Registration Verification, Financial Data from Form 990 and Independent Audit Reports, Mission Objectives, Impact Summary and Individual Reviews from Volunteers and Others. GuideStar provides a Level of Transparency Rating of No Level, Bronze, Silver, Gold or Platinum Levels.

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HEDGE FUND

A professionally managed limited partnership of investors that uses high risk methods, such as investing with borrowed money, in hopes of realizing large capital gains. Generally the investment manager is paid by charging a Management Fee and Performance Fee. Actual fees vary but are typically in the range of 2% annually for Management Fees and 20% of Assets Under Management (AUM) for Performance Fees.

HOLDINGS

The actual investments owned in an investment portfolio.

INDEX

An indicator or measurement; in finance it typically refers to a statistical measure of change in a securities market. For example, the S&P 500 Index is widely regarded as the best single gauge of US large company stocks.

INDEX FUNDS

A portfolio of stocks or bonds designed to mimic the composition and performance of a financial market index. Generally, index funds, which follow a passive investment strategy, have lower expenses and fees than actively managed funds.

INSURANCE AGENT

A person employed to sell insurance policies and products including annuities, life insurance, disability insurance, long-term care insurance, health insurance, and property and casualty insurance. Insurance agents are licensed by the states in which they sell insurance products. Some insurance agents are also licensed as a broker and able to sell mutual funds.

INVESTMENT ADVISOR

The Fiduciary who provides investment advise, recommendations, expertise and services to Investment Stewards, and therefore must act in the best interests of the nonprofit, its objectives and its beneficiaries. They are typically investment professionals, and unlike Stewards, generally have training and are subject to regulatory oversight. All advisors who provide comprehensive and continuous advise for a fee are fiduciaries and required to acknowledge their fiduciary status when asked. It's important to note that not all "advisors" actually serve as fiduciaries. Job titles can be confusing and Investment Stewards can best resolve any confusion by simply requesting the advisor to acknowledge his fiduciary responsibilities in writing.

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INVESTMENT COMMITTEE

A group appointed by the nonprofit's Board of Directors, usually consisting of Board Members and sometimes other individuals affiliated with the nonprofit, charged with overseeing the nonprofit's investment transactions, management, policies and guidelines including selection and review of investment managers, establishment of investment benchmarks, review of investment performance and oversight of investment risk exposure. Many nonprofits choose to have the entire Board of Directors oversee the investment management process, rather than appointing an Investment Committee.

INVESTMENT COSTS

The total expense associated with managing an investment portfolio. Such costs typically include investment management fees, mutual fund net expense ratio, custodian and trading costs, commissions and markups. Investment costs are not always transparent or fully disclosed.

INVESTMENT MANAGER

The Fiduciary who has full investment decision-making authority and responsibility. Investment Managers choose the actual investments and implement the Investment Steward's mandate. The defining characteristic of Investment Managers is that they are prudent experts who exercise investment discretion. Not all Stewards employ an Investment Manager; those that do, seek to gain greater investment expertise and shield themselves from liability regarding investment decisions. Although Investment Stewards can delegate investment management decisions and reduce their investment liability, they still retain their fiduciary duty to demonstrate that they have prudently selected and monitor their Investment Managers on an ongoing basis.

INVESTMENT MONITORING

The most labor-intensive Investment Steward responsibility as it requires an ongoing review and analysis of the nonprofit's investment activities and governance to determine if adjustments need to be made. Investment Stewards have two basic Monitoring responsibilities: (1) monitoring service providers to prudently manage them and (2) monitoring the nonprofit itself to assess how well the organization is conforming to its fiduciary obligations.

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INVESTMENT POLICY STATEMENT (IPS)

Generally accepted as the most critical function an Investment Steward performs, the IPS is a formal, long-range strategic plan that defines the management of the investment program in a logical and consistent framework. The IPS serves as the "road map" or "business plan" that guides the activities for managing the nonprofit's assets, providing enough detail and yet be flexible to meet the organization's objectives. Common components are: (1) Executive Summary, (2) Description of Roles and Responsibilities, (3) Guidelines for Asset Allocation and Rebalancing, (4) Due Diligence Procedures for Investment Selection and Service Providers, and (5) Monitoring Criteria and Processes to Oversee Investment Performance, Services and Fiduciary Practices. Nonprofits may have different pools or portfolios with different Investment Policy Statements to reflect their respective Time Horizons, Objectives and Risk Expectations.

INVESTMENT RESEARCH

Ongoing analysis to study the performance of stocks, mutual funds and other assets to produce a guide as to what investments to make.

INVESTMENT RETURN

The measurement of the gain or loss generated on an investment relative to the amount invested. The Return rate is usually express as a percentage gained or lost over a specified period of time. For example, a $1,000 investment in "Investment A" on January 1, that has a value of $1,100 on the following December 31, had an increase of $100 in value, or a 10% Investment Return for the year.

INVESTMENT STEWARD

The Fiduciary with the primary responsibility and oversight of the management and investment decision-making process for the nonprofit organization. Stewards include Board Members, Executive Staff, the Investment Committee and any others who have a role in the stewardship of the nonprofit's assets. Despite this responsibility, there are generally no qualifications or training required of an Investment Steward.

LARGE LOSS SCENARIO

Generally considered to be an event in which investments lose 30% or more of their value. For example, during the "market meltdown" of 2008, the US equities market, led by technology companies, experienced declines of 30% or more. In determining an Investment Policy, it would be the amount of loss perceived as "too high" and a diversified portfolio would be designed to achieve an acceptable Investment Return without incurring a level of risk from which a Large Loss Scenario would be expected during the investment Time Horizon.

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LIMITED PARTNERSHIPS

A form of business ownership in which one or more partners are financially liable up to the amount of their investment (they can only lose the amount they have invested as distinguished from a general partner who is liable for the total partnership loss, even if it is more than he invested). In the context of investment structures, the General Partner is the sponsor who makes the investment decisions and the Limited Partners are the investors. Limited Partnerships are generally considered to be long-term investments and illiquid in that there may not be a ready market in which a Limited Partner can sell his investment before the expected time horizon of the investment has passed. (In some instances, the Limited Partner may be able to sell, but only at a substantial discount to the present perceived value or original amount invested.

LOAD MUTUAL FUND

A mutual fund with a sales charge or commission. The investor pays the "load" (commission) which goes to compensate the sales intermediary, such as a broker or other financial advisor, for his time and expertise in selecting an appropriate fund for the investor.

LONG TERM INVESTMENTS

Investments generally intended to be owned for at least 3-5 years in order to achieve the expected Investment Return while enduring changing market conditions and market volatility. If the investor's needs include the potential of selling the investments over a shorter time period, investing in less risky investments (which are expected to produce a lower Investment Return) would be the prudent course of action.

LOW COST INVESTMENTS

Investments with annual costs or fees below the average cost of similar investments. Typically, Index Funds, ETF's and other Passive Investment strategies have lower costs than Active Investment strategies. Nonprofits should consider the Total Cost of Investment including Investment Management Fees, Trading Expenses and underlying Investment Costs. An Investment Steward is required to act prudently which does not necessarily mean investing at the Lowest Cost. However, a Fiduciary must only incur "reasonable costs" and should document processes and decisions made regarding investment management.

MANAGEMENT FEE

Also known as the Fee for Investment Advise or Investment Management, is the amount charged for services provided by an Investment Advisor and an Investment Manager. Fees are typically charged as a percentage of Assets Under Management (AUM); for example 1% or 100 Basis Points (bps) per year. In some instances, fees are a designated dollar amount, rather than a percentage of AUM. Fee payment is typically made in quarterly installments.

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MARKET EFFICIENCY THEORY

A hypothesis in financial economics that states asset prices reflect all available information. A direct implication is that it is "impossible to consistently beat the market" since market prices should only react to new information.

MODERN PORTFOLIO THEORY

A mathematical framework for assembling a portfolio of assets such that the expected return is maximized for a given level of risk. It's key insight is that an asset's risk and return should not be assessed by itself, but by how it contributes to a portfolio's overall risk and return.

MUTUAL FUND

A professionally managed investment portfolio that pools money from many investors to purchase securities. Typically mutual fund investors seek to reduce risk through greater diversification and potentially lower costs than they would incur in purchasing individual securities.

NO LOAD MUTUAL FUND

A mutual fund in which shares are sold without a commission or sales charge. No load funds are distributed directly by the investment company, rather than going through a secondary party.

NONPROFIT FIDUCIARY

An individual affiliated with a nonprofit organization, who has decision-making authority or responsibility for directing, managing or overseeing the nonprofit's mission and investments.

NONPROFIT LEADERS

Board Members, Chief Executive and Executive Staff, and any affiliates of a nonprofit organization who have decision-making authority or responsibility for directing, managing or overseeing the nonprofit's mission and investments. Nonprofit Leaders are Fiduciaries.

NONPROFIT ORGANIZATION LIFE STAGE

Phases through which a nonprofit transitions over its existence (lifetime). Phases are not mutually exclusive and a nonprofit may find different aspects, teams or objectives of the organization in different phases, with different challenges, at the same time. Not all nonprofits experience all Life Stages. Typically these Life Stages include Invention, Start-Up, Growth, Maturity and Decline.

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PASSIVE INVESTMENT MANAGEMENT
A portfolio management strategy where the manager does not attempt to outperform an investment benchmark, index or target return. The passive manager's goal is to reduce investment costs and achieve the performance returns of the relevant asset class or index.

PORTFOLIO
A group of financial assets, such as the Investment Portfolio or Investment Account of a nonprofit organization.

PRIVATE BONDS
Fixed Income instruments that aren't listed on a public exchange. Typically these bonds are offered privately to a limited number of investors often including large banks, mutual funds or insurance companies.

PRIVATE EQUITY
Investment funds that own companies that are not publicly traded. Often times these investments are structured as Limited Partnership that purchases and restructures private companies.

PRUDENCE
The ability to govern and discipline by the use of reason, skill and good judgment in the use of resources; exercising caution regarding danger or risk.

PRUDENT EXPERT RULE
A higher standard than the Prudent Man Rule, it requires that a fiduciary use the same level of care, skill, prudence, diligence, and act in the same way that someone familiar with such matters would act (such as an expert or professional).

PRUDENT MAN RULE
Also know as the Prudent Person Rule, is based on common law and the 1830 court case of Harvard College v. Amory where the Court held that the Trustees were directed "to observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested." Over the years, this has been interpreted to require a fiduciary to invest trust assets as a "prudent man" would invest his own property keeping the following factors in mind: the needs of the beneficiaries; the need to preserve the trust estate; and the amount and regularity of anticipated income and growth of the trust assets.

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PRUDENT PRACTICES FOR INVESTMENT STEWARDS

21 Practices, each substantiated in law and regulation, with technical review provided by the Association of International Certified Professional Accountants (AICPA), guided by 8 fiduciary precepts comprising 78 criteria. Collectively referred to as the Global Fiduciary Standard of Excellence.

REGISTERED INVESTMENT ADVISOR (RIA)

An individual or firm that, for compensation, is engaged in the act of providing advice, making recommendations, issuing reports or furnishing analyses on securities, either directly or through publications, under the Investment Advisers Act of 1940. RIA's are regulated by the US Securities Exchange Commission, and serve as Fiduciaries to their clients. This is the highest standard of care under the American legal system and requires that the RIA always put the interest of their clients above their own. This is a much more stringent rule than the "suitability" standard to which Brokers are held. RIA's are required to annually file a Form ADV that provides information on the firm's services, ownership, clients, employees, affiliations and any disciplinary events of the firm or its employees. This information can be seen at www.adviserinfo.sec.gov.

REGISTERED REPRESENTATIVE

Sometimes called a Broker, is a person or firm who arranges financial transactions between a buyer and a seller, for a commission when the deal is executed. A Registered Representative is an employee of a Broker Dealer, and owes a Duty of Loyalty to his employer. You can obtain information on a Registered Representative's employment history, regulatory actions, and investment-related licensing information, arbitrations and complaints at www.brokercheck.finra.org.

REGISTRY OF CHARITABLE TRUSTS

The informational listing to which all nonprofit organizations operating in a State are required to annually file and report certain information regarding the nonprofit's financial and operational matters. Each State has a governmental agency responsible for the oversight and enforcement of rules for nonprofits, usually the State Attorney General. This information is made available to the public with the intent of providing prospective donors with important information to assist their charitable gift-making decisions. If a nonprofit fails to meet these reporting requirements, the responsible State agency may take legal enforcement action against it.

SECURITIES

A certificate or other financial instrument that has monetary value and can be traded. They are generally classified as equity securities (stocks) or debt securities (bonds).

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SELF-DEALING

When an insider of a nonprofit (Board Member, Staff Member or affiliate), acting in that capacity, is engaged in a decision or transaction that benefits that insider. Insubstantial or incidental benefit may be allowed, but it is not acceptable when a service or transaction is purposely aimed to benefit an individual or a narrowly-defined group rather than the public or nonprofit's beneficiaries. Self-dealing is absolutely forbidden in a Private Foundation.

SHORT TERM INVESTMENTS

Investments generally intended to be owned for less than 3 years in order to achieve the expected Investment Return while enduring changing market conditions and market volatility. If the investor's needs include the potential of selling the investments over such a short time period, the prudent course of action would be for these investments to be low risk, with a correspondingly lower expected market volatility and Investment Return.

SPENDING POLICY

Sometimes called Distribution Policy, it defines how the amount of funds to be paid out (disbursements to help meet Mission Objectives) from the nonprofit's investment portfolio over a stated time period (usually an annual rate and sometimes distributed in quarterly or other periodic increments). Some nonprofits also include distributions for operational expenses in their Spending Policy. The amount is generally stated as a percentage rate (typically 3-5%) and many nonprofits use a rolling average of the market value of their investments to smooth out the impact of market volatility. For example, using a 3 year average market value calculated annually or quarterly will smooth out market fluctuations and usually provide a sustainable distribution rate. The Spending Policy is an integral consideration in developing the nonprofit's Investment Policy Statement. For nonprofits operating In California, state law provides that an appropriation of greater than 7% of the average fair market value of an endowment (averaged over the last three years) is presumed to be imprudent.

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STATE ATTORNEY GENERAL

Each state government is responsible for the oversight and regulation of charities located within its boundaries. Usually this function is the responsibility of the State Attorney General (see https://www.nasconet.org/resources/state-government/ for the National Association of State Charity Officials for current listing of the responsible entity for each state). In California, the State Attorney General has this responsibility and has published the Attorney General's Guide for Charities (https://https://oag.ca.gov/sites/all/files/agweb/pdfs/charities/publications/guide_for_charities.pdf) that explains best practices for nonprofits that operate or function in California. California's Attorney General also administers the Registry of Charitable Trusts in which all nonprofits operating in the State must file annual financial reports. The Office's Charitable Trust Section is staffed with attorneys and auditors that investigate and take legal action against charities and fundraising professionals that misuse charitable assets or engage in fraudulent fundraising practices. Complaints can be filed online.

STOCKS

A type of investment where the investor purchases, in exchange for cash (or other acceptable payment), an interest in a business company that has issued shares of ownership (share of stock). Each share of stock is valued at the price a willing seller sells to a willing buyer (the share price). The total number of shares of stock issued multiplied by the share price is the market valuation of the company (the capitalization of the company). Stock investors own a portion of the company, compared to Bond investors who have no ownership interest but have made a loan to the company.

THE ROAD TO FIDUCIARY EXCELLENCE

Building a Culture of Fiduciary Excellence, incorporating the 21 Prudent Practices known as the Global Fiduciary Standard of Excellence, and systematically implementing these Best Fiduciary Practices. Typically this process includes providing Fiduciary Essentials training for the Nonprofit's leadership, conducting a Fiduciary Gap Analysis and/or Fiduciary Assessment, and achieving an independent third-party verification and Certification by CEFEX.

THIRD PARTY ADMINISTRATOR (TPA)

Sometimes called an Administrator, is a service provider generally hired by an employer to run many of the daily operations of the employer's benefit plans, including retirement plans. Today, most TPAs also provide "recordkeeping services" which include daily online reporting and accounting, as well as periodic statements of earnings, losses, and value for each plan participant account.

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UNIFORM PRUDENT INVESTOR ACT

Statute that sets out guidelines for trustees to follow when investing trust assets, and is an update of the previous Prudent Man Rule designed to reflect changes in investment practices since the 1960's. It reflects a Modern Portfolio Theory and Total Return approach to the exercise of fiduciary investment discretion by requiring diversification, consideration of general economic conditions, the possible effect of inflation or deflation, the expected total return from income and the appreciation of capital, and other resources of the beneficiaries. It also removed restrictions in earlier law on certain types of investments. Forty-one states and the District of Columbia have officially adopted the UPIA. The remaining nine states have adopted similar modern trust investment statutes. The American College of Trust and Estate Council (ACTEC) maintains a survey of the current provisions of each state's law at https://www.actec.org/assets/1/6/Kiziah_50_State_UPIA.pdf.

UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT (UPMIFA)

Statute that oversees investment decisions and endowment expenditures for nonprofits and charitable organizations which has been enacted by 49 states, the District of Columbia and the Virgin Islands (it has not been adopted by Pennsylvania or Puerto Rico). The major change in UPMIFA compared to the previous model law (the Uniform Management of Institutional Funds Act) is that it replaces a requirement that nonprofits cannot spend below the original value of contributions with a new requirement that their investing and spending will be at a rate that will preserve the purchasing power of the principal over the long term. UPMIFA aligns very closely with the Uniform Prudent Investor Act as it requires charities diversify their investments and incur only appropriate and reasonable investment costs. Charities must also consider general economic conditions, effects of inflation and deflation, tax consequences, the role of each investment in the overall portfolio, the expected total return from income and appreciation, the charity's other resources, and the need to make distributions and preserve capital. In California, the statute provides that an appropriation of greater than 7% of the average fair market value of an endowment (averaged over the last three years) is presumed to be imprudent. Charities are allowed to delegate management or investment decisions to agents who have been prudently selected, where the scope of the delegation is clearly defined, monitored and expressly made subject to appropriate court jurisdiction.

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VARIANCE POWER

The sole and independent authority granted to the governing body (Board of Directors) of a community foundation, to modify any restrictions or conditions for distributions of a donor's gift, where circumstances warrant. This Power also grants the Board the ability to replace any participating trustee, custodian, or agent for breach of fiduciary duty, or for failure to produce a reasonable rate of return on the investments over a reasonable time. Typically this Power is stated in the community foundation's Fund (Gift) Agreement with a donor which describes the purpose of the fund and how distributions from it will be made. It states that if the Board ever determines that the donor's restrictions have become unnecessary, incapable of fulfillment or inconsistent with the needs of the community, the Board has the right to "vary" any applicable restrictions made by the donor. With Donor Advised Funds (DAF's), the donor must acknowledge this Variance Power in writing.

WHISTLEBLOWER POLICY

Written policy approved by the nonprofit's Board of Directors that encourages Staff and Volunteers to come forward with credible information on illegal practices or violations of adopted policies. The Policy provides internal processes for addressing complaints that protects the "whistleblowers" from retaliation. The objective of the Policy is to help ensure the Board that if there is a problem it will be investigated and fixed without retaliation on those who bring it to the Board's attention. The Policy can also be a positive demonstration that the nonprofit values transparency and accountability. Although a nonprofit is not required to have a Whistleblower Policy, Form 990 requires an answer to "Did the organization have a written whistleblower policy?" and IRS considers having such a policy as a good governance practice.

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FIDUCIARYPATH™
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FIDUCIARY ESSENTIALS®
FOR NONPROFIT LEADERS

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Fiduciary Excellence Leads to Trust. Trust Leads to Enhanced Donor Confidence and Board Engagement, Which Leads to Increased Donations, Financial Security, and Mission Success.

- ***"For nonprofits . . . reputation is everything."*** (MIT Sloan Management Review 2014, "How Nonprofit Organizations Use Reputational Risk Management.")
- Yet, a June 2019 Gallup and Wellcome Trust study finds that ***in the US, only 60% of respondents said they trust charities – and a whopping 27% said they don't.***
- ***"Only about half (47%) of nonprofit directors believe that their fellow board members understand their obligations as directors well or very well."*** (Stanford Graduate School of Business, 2015 Survey of Boards of Directors of Nonprofit Organizations.)

Many trustees, board members, investment committee members and other nonprofit leaders are unaware of their fiduciary responsibilities. In many instances they simply haven't been told or had things explained to them in a clear, straightforward manner that is relevant to them.

Delivering Fiduciary Excellence

www.fiduciarypath.com

FIDUCIARY ESSENTIALS®
FOR NONPROFIT LEADERS

LIVE TRAINING VIA WEBINAR OR ONLINE

Are you a leader, board trustee, director, or on the Investment Committee?

Many nonprofit leaders don't realize that they have legal fiduciary responsibilities – and fewer still are truly aware of the full scope of those responsibilities.

Most have never been shown how and what it takes to be a fiduciary.

BUILDING A CULTURE OF FIDUCIARY EXCELLENCE

EMPOWERING YOU TO ACHEIVE YOUR MISSION

Fiduciary Essentials® training provides a common investment vocabulary and best practices framework that helps Trustees, Board Members and Leaders to:

- Speak the Language of Fiduciaries©
- Select Prudent Experts
- Increase value from Service Providers
- Provide confidence to supporters, members and beneficiaries

When you're finished with **Fiduciary Essentials® for Nonprofit Leaders**, you'll have a better understanding of your fiduciary responsibilities, why they are so important, what steps to take in fulfilling your fiduciary role and where to find prudent experts to assist you — and who may relieve you of some of your fiduciary duty.

EXPERIENCED TEAM OF FIDUCIARIES

Increase fundraising results, have a more focused and engaged board, manage reputational risk, enhance donor trust and confidence, and be recognized as the best!

Looking to Empower your Nonprofit Leaders?

Fiduciary Essentials is the first step. Please contact us to learn more.

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