Podcast Transcript: Talking investment strategy and management for community foundations

The following is a transcript of a podcast. Tracey Vavrek, of Learning and Network Engagement with Community Foundations of Canada interviews Anum Siddiqui, an Institutional Portfolio Manager at Mawer Investment Management. Listen to the full episode here.

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Tracey Vavrek:

Well, welcome, everyone. It is wonderful we could come together today. My name is Tracey Vavrek, Director of Learning and Network Engagement with Community Foundations of Canada, and I am so excited for today's session. We are joined by some special guests from Mawer.

Mawer has been a partner with Community Foundations of Canada for many years. We are very honoured that we could come together today to share some time together but also dive deep into investments, investment strategies, investment policies, and so much more. And today, I'm joined by two very special individuals: Sylvie Methot, Sylvie, thank you so much for joining us, and Anum Siddiqui. Welcome to both of you.

Anum Siddiqui:

Thanks, Tracy. Thanks for having us today. We're looking forward to the conversation.

Tracey Vavrek:

Thank you so much, Anum and Sylvie—to you as well. Welcome.

Sylvie Methot:

Thank you, thanks for having us.

Tracey Vavrek:

Anum, do you mind jumping in and sharing a bit about the history of yourself and Sylvie and what you're bringing to the table today?

Anum Siddiqui:

So, both Sylvie and I are institutional portfolio managers at Mawer, and that's a fancy way of saying we get to spend our time speaking to clients and answering their questions and keeping them up to date on their portfolios. The way I see it is that we act as the bridge between our clients, which we manage capital for, as well as the Research Team, who is responsible for making investment decisions and are actually managing the capital for our clients. And so Sylvie and I have that background and have the privilege to speak to our clients.

Prior to joining Mawer, both of us actually came from working for investment consultants, so we had a chance to get to know Mawer from afar and ask some of the tough questions as consultants often do before eventually joining the team here at Mawer.

Tracey Vavrek:

Well, as we get started today, I'm mindful that we have many new community foundation leaders, and we also have some new community foundations that have been created over the last few years. And as we dive into what it means to manage and run a community foundation, I'm mindful that there are many questions that come up around strategies and opportunities to explore with investment management, investment portfolios, et cetera.

Sylvie, I'd like to start with you first, if I can. I have a question for you that has come right from a community foundation, so I'm going to share with you what I've heard from [the] foundation, and I'd love your perspective: “I am new to the community foundation. What are the key areas of an investment policy that I need to understand on an endowment-focused investment strategy?”

Sylvie Methot:

It goes back to the role of the investment committee members. First and foremost, it's to make sure the investment portfolio is in line with the foundation goals, timeline, and willingness to take on risk. Questions like, “are we still invested in the appropriate funds?” Implementing and monitoring the asset allocation. “Do we have the appropriate asset mix?” Rebalancing and then monitoring your managers. “Is my portfolio managed within our risk and cost constraints?” So those are a few examples.

Your IPS contains important portfolio-specific guidelines, so you should refer to it. What are you trying to accomplish through investments? How diverse should your investment be? What percentage of each investment vehicle, like stocks, bonds, and equities, should be in your portfolio? How will you measure the performance of your portfolio, and how will you evaluate the performance of your investment managers? It could be over a period of [a] four- or five-year rolling period; could be relative to its peers again, over a certain time period.

I would say that short-term performance should not be the first thing to focus on. The IPS is your guiding post, and you should lean on it to avoid short-term emotional decisions. The liquidity needs are also usually a little bit different and unique to foundations, so you have to understand what are the specifics of your foundation and then review the investment objectives and portfolio allocation and then decide if you need to adapt or bring this forward to make changes.

Tracey Vavrek:

Sylvie, that's very, very helpful. And as you were sharing with me, what was coming back to me was also understanding the impact of the investment policy beyond returns, because we are mindful that the policy's important, but truly what is the purpose of the investment policy statement and how can we look beyond just the returns?

Sylvie Methot:

That is very important. An investment policy should create an alignment among the mission, objectives, and policies of your foundation. So, at the end of the day, your investment policy is your North Star. It should be used to help you keep your eyes on your long-term goals and not react to market volatility or newspaper headlines. We often see that. Some questions that come up, as always, [is] what's in the last week's newspaper or social media. So you have to be cognizant of that.

You have to review your investment policy regularly—maybe once a year or maybe two or three years, depending on the choice of your committee. It's like any individual institutional investors. They do review their long-term goals when things change. Even a good manager or a client service person like Anum and I, we usually take time to review the investment policy of our clients in advance of a portfolio review meeting. It is our guiding post for all of us.

There are really two important sections for the investment committee members to pay attention to in the IPS. The most important section, in my opinion, would say it's the investment objectives *beyond* making money. What is the purpose of your foundation? The investment objectives usually dictate first, your investment time horizon, your liquidity needs and preferences, income requirements and your target return objectives, but most importantly, review your risk tolerance.

And then the second part is the portfolio allocation. A well-diversified portfolio is your best bet for the consistent long-term growth of your investments. So first, review the appropriate asset mix for your investment goals and risk tolerance. You want to review: do you need to make changes or the percentage of certain asset classes? Do I want to review that the cash fixed income, public alternative real estate, et cetera? Should you have a plan to fix your strategic target allocation?

So, let's say you agree that this needs to be changed. So then, do you have a plan in place to shift your asset mix strategy on a five-year plan? You want to review the details of the permissible investment. Are the constraints, if any, working against your manager style or a new manager you onboarded? Are you using the appropriate benchmark? Because they change over time. You got to monitor the performance. Is your portfolio manager performing as you would expect their style [to] based on where we are in the market environment? Do you need to reassess for greater alignment between the portfolio and your organizational mission? There are new trends these days like sustainability investing, ESG—are you getting pressure from donors to invest in more sustainable investment vehicles?

And then finally, the last one I have is, are you considering new asset classes? We've seen a shift again of new asset classes that were not necessarily available to smaller portfolios in the past, such as infrastructure, real estate, private equity and so on.

It's a long list, but it's important to do the work.

Tracey Vavrek:

Sylvie, you have provided us with such a great outline and the importance of that North Star and that importance of that monitoring and measuring.

And Anum, that brings a thought for myself that I'd love to share with you around, truly, how should we be looking for an investment manager? I'm mindful of the importance (as Sylvie's just indicated) [that] there's so much importance on that North Star, that monitoring so that investment manager is a partner in everything we're doing within our portfolio.

So, how should we be looking for an investment manager? And what does it look like to conduct an RFP? I'd love your thoughts on that, Anum.

Anum Siddiqui:

It's a good question, Tracey. I'd like to think that it is not too different from when an employer is looking for a potential candidate for a job. There's a big pool of potential employees out there. There's also a big pool of investment managers that a foundation can hire. And so, time is probably one of our most precious resources, and you need to streamline the process—whether you're looking for a potential job candidate or an investment manager.

And so that's a good place to start, is an RFP—similar to a job posting or when you're gathering a cover letter or CV, a resume, et cetera. And this process helps you understand whether there's a certain manager out there or there are a number of different managers out there, rather, that could be a potentially suitable candidate for your portfolio.

In terms of what an RFP should entail, I think from a broad perspective, a lot of foundations and a lot of institutional clients, in general, are looking to answer two main questions. I think the first one ties back to what Sylvie was talking about: “can this investment manager help me meet my investment objectives?” And I think the second question comes back to what you just said about having a trusted partnership. You want to make sure that you are partnering with a manager that you can trust. A manager is responsible for this endeavour of managing your capital, so you want to make sure that you're placing your capital with someone and an organization that you can trust.

I would say I could probably spend the whole podcast talking about what can go into an RFP, but really, a lot of the questions that are going to be asked in an RFP are centred around answering those two first questions that I mentioned. If I were to put an RFP—and I'm not saying this is the right way—but if I were doing it on behalf of a foundation or another institutional client, I think there are a couple of categories that I would focus on in terms of putting an RFP together.

And those categories would be making sure you have information on the organization itself, the team; as well as the philosophy and investment process that is being applied by the investment manager; as well as some other aspects such as performance, fees; as well as client servicing and reporting capabilities. And so if I dig a little deeper into what each of those categories actually entails, starting off with the firm, I think what you really, again, want to think about is, is this a credible organization that you can trust?

And so, in respect to the firm, you want to gather some information about the history, organizational structure, how stable the organization is, what kind of assets they manage and if they manage assets for clients similar to yours. And so that's important to ask about and probe about in terms of your RFP.

With respect to the team, there are many different aspects that you would want to look at. You don't want to just focus on the leadership but also on the individuals that would be actually responsible for managing your capital, how experienced and tenured they are, and whether that investment team has been stable over time, again. As well you might also want to know who you're going to be dealing with on a regular day-to-day basis and what kind of experience they have. So, those are individuals such as Sylvie and myself. We are often the main contact for a lot of our foundation clients and deal with them on a regular basis. And so you might want to know what kind of experience, again, they have in working with similar clients, and just their experience and knowledge base in general.

With respect to the philosophy and process, I think that's an incredibly important part of the RFP. Again, coming back to the conversation around suitability and achieving objectives, there are a lot of investment managers out there. And while it might seem like we all do the same thing, we actually do apply different investment approaches and have different investment styles, which may or may not be a good fit for a respective foundation. And so, you can ask questions about what that actually entails and how your investment manager manages money, and that might help you understand whether or not it is a good fit and whether it lines up with your investment policy statement.

The other pieces around performance and fees perhaps they're self-explanatory, but again, coming back to something that Sylvie mentioned, it's important to focus on the long-term, but also look at the consistency of performance, as well as an understanding of when exactly or what type of market environments an investment manager will underperform or outperform.

So those are some of the elements of an RFP in a nutshell. I'd also like to mention when you are conducting an RFP, it's also important to share information with your respective managers or potential managers, rather. And that's because the investment manager in question that's filling out the RFP that you've provided might need to understand the whole picture and what your organization is looking for. And so that's why it's also helpful to share your investment policy statement or outline very clearly what your expectations are and what you're expecting out of your investment manager. And with that, an investment manager can make an informed decision on whether they are actually a good fit for your organization or not.

Tracey Vavrek:

Anum, thank you so much for that. I really appreciated how you started with the concept that "it's like hiring." You're hiring for if it's an employee within your team, et cetera; and the importance really of aligning within your goals, the strategies of your policy; and to see if the relationship is aligned to work together and how important it is to build trusting relationships.

And I'm mindful that I'm working with you and your team on building an RFP sample that we'll have available for community foundations as well, and I want to extend my appreciation to you and to others in your team for that support, too, as well. Because it's a key part as foundations go forward.

Sylvie, I'd like to come back to you around part of the team: the team that foundations have within their organizations and the importance of the team, but there are also different roles for each part of the team. And so I'm mindful that our community foundations have a tremendous board of directors, but they also have investment committee members as well.

I would love your perspective on what is the difference between the role of the board of director and what is the role of the investment committee?

Sylvie Methot:

It varies depending on the size of the foundation. We have various foundation clients that have different asset sizes of portfolios. So, we see quite a wide range of responsibilities, but let me start by flipping it. Let's talk about, first, the responsibility of a board. So, the board has the ultimate fiduciary responsibility for the foundation's investment portfolio; [it is] responsible for ensuring that appropriate policies governing the management of the portfolio are in place and are implemented, such as the spending policy. Then the board also sets and approves the IPS, and then they can decide to delegate the implementation and ongoing monitoring to an investment committee. So, that would usually depend on the interest or expertise of the volunteers.

From there, the investment committee will be responsible for implementing the investment policy and strategy. The committee members will establish the asset allocation, and then they will be the ones going through the process of hiring or firing an investment manager to implement this strategy. And finally, they will monitor performance on a regular basis just to make sure that it's in compliance with the investment policy. They will relay the information from the managers to the board so there's a constant flow of communication between both parties.

The roles and responsibilities are usually clearly defined in the investment policy of the foundation, so that's a good place to see how your foundation really defines those two roles.

Tracey Vavrek:

Sylvie, thank you so much. I'm mindful of something that you noted here—how that investment policy is a guiding force. It's that guiding place to understand the direction, the objectives, where the investments are going and that connection point. It's the guiding point between the investment committee and also the board of directors. And I'm mindful that the board of directors has the overarching responsibility, a fiduciary responsibility. And that's a key part of this, too, as well.

So that alignment and that communication strategy is key for both the foundation, but also as well for the investment committee, which also then supports the investment advisor. So as we go forward, I'm really mindful, Anum, that there are also dos and don'ts to be mindful of as we continue to have our relationships between the investment committee and the investment managers. And so, as we think broader from the investment committee and the investment managers, Anum, I'd be very intrigued for your thoughts around dos and don'ts for our community foundations as they consider overseeing their portfolio. What are some dos and don'ts that you would recommend?

Anum Siddiqui:

I'll start off with the dos. And I think the first "do" that comes to mind and is really important is to just communicate with your investment manager and to touch base with them when you have questions. Your investment manager is absolutely there to answer the questions that you have. And in my opinion, at least, there is no such thing as a silly question. So, foundations and the staff that work at foundations should feel comfortable reaching out and asking questions on a sporadic basis or whenever they need—not just wait until the next investment committee meeting to ask those questions.

I think another part of that idea of communication is to just at a high level make sure that you're formally meeting with your investment manager. That will likely be outlined in your IPS or investment policy statement. Often you see foundations wanting to meet with them at least annually, but sometimes it's more frequent.

And aside from that, I would say another "do" is to use the resources the managers have at their disposal. For instance, at Mawer, we have a blog, we have our own podcast (shameless plug there, I suppose [laughs]), but there are also white papers that we produce. And there are a lot of asset managers regardless of who you're working with that produce content that could be really helpful in terms of your overall understanding of investments or your given investment strategy.

I would say that the last "do" that I'll note just to make sure that you provide feedback to your investment manager, as well. The obvious side of communication in terms of this relationship is the manager providing information to the client, but the client knows what its needs are more than the manager itself, so it's really important. The hope is that clients provide feedback back to their investment manager to understand how we can do a better job and better meet their needs.

For instance, in a scenario where let's just say you have an investment committee meeting and an investment manager has touched on a given area which was perhaps less useful or which was actually very useful, iterating that feedback could really make for a better meeting next time. Investment managers really want to make the most of [an] investment committee's time. Again, time is precious. And so feedback is always, whether it's constructive or positive, is always very valued, I would believe.

With respect to "don'ts"...I feel a little odd saying the don'ts because again, managers are here to manage clients' capital, but if I could think of a couple of "don'ts," I would say the first one would be is don't expect your investment manager to be able to predict the future. There's sometimes an expectation, and perhaps rightfully so, that your investment manager will know what will happen with the portfolio or with markets in general. And while those might be fair questions, your investment manager's approach might be more long-term in nature and might not actually have a focus on what's going to happen in the macroeconomic context or in the broader top-down context.

If they're like us and they're focused on individual companies and investing in individual businesses, they might not have incredibly helpful insight in respect to what's going to happen in the future. And I would even say if they do, I would suggest being a little skeptical if they have an absolute crystal ball prediction in terms of what's going to happen. That would be my first "don't."

And then the second "don't" is actually nothing new that listeners have heard. And that just makes sure you don't focus too much on the short term. And the reason why is that over the short term, there can be a lot of volatility, but if you're a long-term investor, it's not as important with respect to your overall portfolio and with respect to your overall investment objectives.

That's not to say that you shouldn't be asking questions in respect to short-term performance. You should absolutely understand what's happening. Why is a market behaving the way it's behaving? Why is a portfolio behaving the way it's behaving? But my "don't" is more focused on the idea of making any decisions based on short-term performance.

Tracey Vavrek:

Anum, thank you so much. As you were speaking just now, it brought me back to the days where I was sitting with our investment committee and some of the conversations that we would host with our advisor as well, around really looking at, “let's not stop within the now, let's continue to focus on the objectives of the policy and continue to move forward.”

But you brought up something that I've also experienced, [which] is investment markets and how markets can change. Sylvie, I'd love your thoughts on how should an investment committee navigate when we have volatility. Now, we see volatility today. We've seen it in the past. We know there are going to be times when the markets will go through volatility in the future. So I'd be very interested in your thoughts and some recommendations for our foundations that are joining us today on how can we navigate this.

Sylvie Methot:

Yeah, I guess I could add this to the “dos and don'ts”: don't panic. That's probably what I would say. Stay calm, let the manager worry and do the work for you. The hope for a foundation is that it will survive beyond your own involvement as a committee member. There will always be several economic and political events that have the potential to cause ongoing disruptions over several months and even years.

To us, it is the reality of economic cycles. We're very well aware of these cycles. So when it comes time to face challenging market environments, then your IPS again is your guiding post. It's a tremendous help in keeping you anchored when volatility picks up; [that] you do have a well-diversified portfolio. I guess what I want to say is, at its core, the biggest advantage of a foundation is the time horizon. So you should use this as an opportunity. A good investment strategy takes these moments into account to position you to build wealth over the long term. So stay calm.

Tracey Vavrek:

Sylvie, thank you so much. And that calmness, that also being reminded as well around that guiding post of what the IPS is (that investment policy statement) is really key. And so I’m really mindful of how important that is as we go forward.

Anum, as I think about investment managers and how they can support community foundation leaders—what would be your recommendation on how community foundation leaders can continue to build on that relationship, and continue to walk side-by-side with that investment manager? And how can that investment manager support them in their role?

Anum Siddiqui:

What comes to mind is something I mentioned earlier in regards to when you're searching for a manager. You want to make sure that you can trust them. And so, if you trust an investment manager with your capital, you would also expect to trust them with providing advice and acting as a sounding board with respect to all things related to your investment portfolio.

So what I would say in terms of how can an investment manager support you – just in being a trusted partner in any way that you believe is necessary. What that means in reality, I would say, is that there are a few ways in which an investment manager often helps foundation clients. The first being, again, I feel like we keep on coming back to the IPS, but it is an important part, and again, that North Star for a foundation. An investment manager can help with input and advice around what an IPS can look like.

And actually just coming back to the RFP question, I've received a lot of RFPs in the past where the prospective client has asked, "Well, here is our investment policy. What do you recommend? What do you think about our investment policy? What do you think of our asset mix? Do you think that there's anything off with any part of it?" And so that begins at the beginning of the process, but that can also happen on a regular basis. So, if a foundation is reviewing its investment policy on an annual basis before it's officially approved, perhaps they want to send it over to their investment manager, who is also following it and seeing if they have any input or advice or guidance around what's happening.

I would say, also, there's an opportunity to also reach out to your investment manager on different trends and different regulatory items. For instance, something that is somewhat topical right now is that the recent federal budget has communicated an increase in spending requirements for foundations. And so we do have a couple of clients reaching out to us right now in terms of our thoughts on the topic and we're having ongoing conversations in regard to that. Obviously, it's different depending on what kind of foundation you are and what type of tolerance you have, but that's an example, again, where perhaps it's not specifically pertaining to your investment mandate with an investment manager, but still very important in respect to your overall portfolio. And so feel free, I think, to reach out to your investment manager to see what they're thinking and what their thoughts are in respect to your given foundation.

But aside from that, I think there are other opportunities for an investment manager to provide support. Sylvie mentioned or alluded to how investment committee members are not stagnant. There are people that roll off. And so when that happens, in order to have continuity, it is helpful to make sure that the new investment committee members are aware of what type of investment manager is managing the portfolio.

And so that might involve having a session one-on-one with new committee members, getting them up to speed on the investment mandate that is managed so that when they go to the investment committee meeting, they can hit the ground running and ask the tough questions that investment managers receive. And so I would say at a broad level, the support is not limited to anything in particular. I mean, I would say don't reach out for cooking advice perhaps [laughs]. (I mean, it depends on who your client service manager is, I suppose.)

But you can really reach out and feel free to reach out to your investment manager on different matters and where they think the hope is. Where they don't have the expertise, they can perhaps point you in the right direction or let you know that they can't help you, and where they can, they definitely will.

Tracey Vavrek:

Anum, thank you so much. What continues to come back to me is the importance of the investment policy statement. It is that guiding force that North Star to continue to support the investment strategies, and it also supports the relationship, as you've just noted, with the advisors and also the foundation.

Now, I'm also mindful that there are times that an investment manager may also be asked to present to the board the overarching findings. And that's an important piece as well—that building that relationship with the board is also an important piece, plus also that opportunity to share on the strategies and as well the performance of the portfolio.

As we continue to think about going forward, I'm really mindful of that importance of staying calm. Staying calm, being mindful that the journey we're travelling is the journey. There may be some volatility, but we do engage our managers because they are the professionals. They also have skills and knowledge that they can share. And I know both Anum and Sylvie have tremendous knowledge they've shared with us today.

And as we get ready to close off today, Anum, I'd like to come back to you. I'd love for your thoughts on what does Mawer Investment Management's tagline, "Be Boring. Make Money.™" mean?

Anum Siddiqui:

Yes, so, Be Boring. Make Money.™ is a punchy tagline that we have, but in all seriousness, it is a description of how we manage money and what we're aiming to deliver to our clients.

So, the second piece, "Make Money," perhaps is more simple. As an investment manager, which is managing clients' capital, our goal is to help our clients achieve their investment objectives and help them make money. That's pretty simple.

What the "Be Boring" part is all about is really centred on how we are trying to provide our clients with financial peace of mind. So, our Chairman Jim Hall, he talks about how heart surgery should be boring, and flying a plane should also be boring. It is our belief that your investment portfolio should also be boring.

And so what we're trying to do is, well, we're not trying to follow fads or trends or time the market. We're not trying to predict the future—we know that we can't. We have the humility to know that we can't. But what we *are* trying to do is protect our client's capital, manage risk, and essentially follow a process and philosophy that is boring and simplistic in nature.

And so that is what Be Boring. Make Money.™ is all about.

Tracey Vavrek:

Anum, thank you so much. I love the “Be Boring.” I'll be truthful. As someone that, again, sat in the seat as a CEO for just under 20 years, I'm mindful of that “Be Boring” component because that is so important as we continue to focus and be guarded and also to just share and have that common vision of what the policy means. That's in the best interest of the community. Because we know our end result is that we are all working towards what is best for the community foundation.

And so, as we think about going forward today, I'm mindful of the leadership both you and Sylvie have provided, of the leadership that all the team members for Mawer have provided to community foundations and to Community Foundations of Canada. Any thoughts, Sylvie, today that you'd like to leave our listeners with?

Sylvie Methot:

Yes, absolutely. Something came to mind when Anum was talking about how we can help the committee members in their roles. I would say it's a partnership. So, the best way to elevate this partnership is to provide us with feedback. You know your committee better than we do. You know the members and their level of knowledge or expectations way better than we do. We only show up a few times a year. So, give us some feedback. What information would you like to see? What do you want us to do more or less? It's like a relationship. We need to get to know each other. And the more information you gave us prior to a portfolio review meeting, I think the better [the outcomes of those meetings will be].

Tracey Vavrek:

Thank you so much, Sylvie. Trust, trust, trust. Partnerships, trust, communications continue to come back as [a] very strong platform and key ingredients to ensure a very successful relationship.

Anum, do you have any last thoughts as we get ready to close off today?

Anum Siddiqui:

I would say my last thought is just to reiterate something that we've outlined or that we've mentioned throughout the conversation, which is don't be afraid to ask questions. Don't be afraid to communicate with your investment manager if that's at the beginning when you're trying to look for an investment manager or when you've had a long history.

It's really important to ask questions and make sure that you have the information that you need in order to monitor your portfolio.

Tracey Vavrek:

Well, on behalf of community foundations from coast to coast to coast, and on behalf of Community Foundations of Canada [CFC], I share with you a very heartfelt thank you to both of you and to the team at Mawer, who continues to walk side by side with community foundations, but also as well with CFC.

Thank you so much for your time today. I look forward to future opportunities for discussions. Take care, everyone.

Anum Siddiqui:

Thank you, Tracey. Thank you so much for your time.

Sylvie Methot:

Thank you. Thank you for hosting us.

Community Foundations of Canada is grateful for collaboration of Mawer Investment Management in creating this podcast for community foundations.

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