



Fact Sheet: Defining Your Role as a Fiduciary

The following fact sheet explains the role and the responsibilities of a fiduciary within a community foundation. This will give examples of who takes on the role of fiduciary in your organization and what some of the challenges they will face could be. It also shares a code of conduct for fiduciaries to follow.

Within a community foundation, the investment committee is charged with the responsibility for creating and implementing the investment program and seeking out the service providers required to administer and manage the investment funds. A well-functioning committee is critical in ensuring the long-term stability and success of the Foundation and its beneficiaries. The investable assets belong to the organization, and because the Board empowers the committee with overseeing the asset management, a fiduciary responsibility is born.

What is a fiduciary?

- A fiduciary is a person or organization that owes to another the duties of good faith and trust. It involves being bound ethically to act solely in the interest of another party in and the other's best interests.
- Trustees, Board members and Investment Committee members are fiduciaries. They are responsible for making decisions that are in the best interests of the Foundation, including managing and protecting the assets of the Foundation and its beneficiaries and must operate in the best interest of all beneficiaries, rather than for the personal benefit of the committee members or any other stakeholders.
- This includes acting with care, diligence, and prudence in managing the Foundation's financial assets, and avoiding conflicts of interest.

The CFA Institute has created [a code of conduct](#) for endowments, foundations, and charitable organizations which investment committees would likely find as a good reference.

Generally, the code suggests that fiduciaries should:

- Act with loyalty and proper purpose
- Act with skill, competence, prudence, and reasonable care
- Abide by all laws, rules, regulations, and founding documents
- Show respect for all stakeholders
- Review investment strategy and practices regularly



Key Fiduciary Responsibilities:

Duty of Care: a duty to use care toward others that would be exercised by an ordinarily reasonable and prudent person in order to protect them from unnecessary risk of harm (Merriam-Webster).

- Members of the investment committee have a duty to be informed and take prudent steps to thoroughly, and continuously, review all investment options, ask & record questions, and seek additional advice and guidance where needed.

Duty of Loyalty: a duty to act honestly, and in good faith, in the best interests of the organization. A personal responsibility that cannot be delegated.

- Members of the investment committees are not allowed to profit from their position and must avoid all situations in which their duties to the Community Foundation conflict with their interests or duties to others.

*****Lack of knowledge does not negate any of the obligations and liabilities of a fiduciary*****

Common Challenges:

- Lack of expertise or prudence (complexity & regulations)
- Strong personalities influencing direction
- Lacking clear priorities or vision
- Conflicts of interest
- Limited time & resources
- Balancing competing priorities

An effective way for the investment committees to protect foundation assets, and uphold their fiduciary responsibilities is to maintain a sound and disciplined decision-making process. This starts with a code of conduct, and clearly articulating the overall investment objectives, scope, and goals of the foundation. The prudent investment committees always considers the overall mission, risk tolerance, and time horizon for the assets. A clearly defined Investment Policy Statement and a thorough manager search are critical to the success of the committee. It is important for any investment committees to remain aware of proper diversification of assets, regular monitoring, and evaluation as required. Always seek professional advice and expertise where required, maintain clear and accurate records, and regularly review and update policies and procedures.



Best practices for fiduciaries on an investment committees:

- Understand your Fiduciary Responsibilities
- Have a Code of Conduct
- Maintain clear and transparent lines of communication
- Maintain clear Policies & Procedures
- Create a well-defined Investment Policy Statement
- Involve experts
- Avoid Conflicts of Interest
- Perform Meeting Assessments
- Assess and celebrate committee member strengths & diversity
- Plan for contingencies and proper succession of committee members

Community Foundations of Canada is grateful for the collaboration of Leith Wheeler in creating this factsheet for community foundations.



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