COMMUNITY FOUNDATIONS OF CANADA | The Learning Institute

Fact Sheet: Building Financial Resilience in Uncertain Times

No matter the size, every organization is ultimately a mosaic of the individual histories, experiences, goals, dreams, and visions for the future of its people. Community Foundations are a wonderful example of this, as they are a collective of individuals specifically focused on helping to build resilient and, therefore strong, communities. Personal resilience means having the capacity to recover quickly from difficulties, or 'spring back into shape,' and is aided by five key characteristics: being positive, focused, flexible, organized, and proactive.[1]

Just as these characteristics contribute to personal resiliency, financial resources are a key component and arguably one of the most important contributors to both financial and overall resilience. This fact sheet aims to highlight some tried and true strategies for building financial resilience in difficult or uncertain economic environments.

Spoiler Alert: Financial resilience is not actually built during uncertain times… but rather well before any storm clouds appear on the horizon. If you wait until the depth of an economic crisis to plan, you may not be in a strong position to provide for the important communities you serve.

Six ways to protect your Community Foundations assets:

1. Have a Plan – Develop a Robust Investment Policy Statement

A well-developed and constructed Investment Policy Statement (IPS) is the cornerstone of any disciplined investment strategy. The IPS acts as a roadmap to achieving your long-term goals through all sorts of market conditions. This helps keep all eyes on the road ahead and the ultimate objectives of the community foundation. An IPS should clearly detail the following sections, at a minimum:

- Purpose & Investment Objectives
- The roles of involved parties
- Income Requirements & Liquidity Needs
- Target Return & Overall Risk Profile

[1] Danes, Dr. Sharon. Understanding and Building Resilience. University of Minnesota. 2014.

- Overall Asset Allocation Targets for each asset class
- Any other important considerations (i.e., Environmental, Social, & Governance factors)
- Any Restrictions (i.e., no tobacco-related companies)
- The process for Evaluation of Investment Manager Performance

An investment plan without an IPS is the equivalent to setting off on a flight without your manuals, safety checks, and radar – you have no way of telling if you've veered off track. An IPS should be reviewed at least annually and upon any significant changes to the organization's circumstances.

2. Plan For a Rainy Day – Importance of a Reserve Fund & Proper Cashflow Planning

Unfortunately, even the most solid investment plans can be thrown off course by poor liquidity (cash) planning. To properly manage this risk, it's critical to plan ahead. A **Reserve Fund** is the first line of defence and acts as a low-risk, highly liquid safety net to ensure short-term capital needs are covered. It can also help provide a buffer for unexpected expenses or needs within your community.

Knowing the **time horizons** for any upcoming expenditures (both short and long) helps ensure the plan stays on track no matter where we are in the business/economic cycle. Community Foundations may wish to consider developing their **spending policies** based on **rolling averages** or a **percentage-of-assets spend rule** (instead of shorter-term calendar year performance) when planning for disbursements and other cashflow needs. It is critical to balance current, and future spending needs to ensure the long-term stability of your asset base.

Factors that may impact your specific payout decisions:

- Size of the Community Foundation and Available Resources
- Expected Donations (do these tend to dry up during poor economic times?)
- Disbursement Quota
- Overall Investment Earnings and Actual Returns
- Liquidity preferences and timing of cash needs
- Overall asset allocation
- Percentage of the overall budget that comes from investments
- Actual vs. expected returns.
- Cash reserves

Your investment manager may be able to help quantify and plan for these needs.

3. Manage Your Investment Risk - The Importance of Diversification

Once you have a well-laid-out Investment Policy Statement and have properly accounted for your time horizon and cash flow needs, your next stop is your investment portfolio. The goal here is to experience the lowest risk in generating the return you require. Your investment manager should build you a portfolio made up of a disciplined mixture of multiple asset classes (i.e., stocks, bonds), geographies, sectors, industries, and companies. No one asset class consistently outperforms the others over a long time horizon, so a properly diversified portfolio can reduce volatility and potentially improve risk-adjusted returns in the long run.

4. Think Long Term

For many Community Foundations, the portfolio is meant to last for generations and will outlive many rounds of new investment committees and executive directors. It will also survive many market corrections in between if you don't let short-term fear drive your decisions (hint: this is where your IPS can keep you on track). Keep your focus on the long term and remember that the best opportunities often appear when pessimism reigns, and your investment manager can buy when stocks are 'on sale'.

5. Stay Invested

Investing is not easy, and there is always a new 'reason to sell'. The news is opportunistically pessimistic, and we are all human, subject to biases and emotional decision-making. Unfortunately, this can lead many individual portfolios to underperform the broad market because folks try to chase performance or time short-term market movements. Part of thinking long-term is staying invested when it feels scary to do so. Remember that investors intermittently go through periods of intense pain, but ultimately the patient ones are rewarded.

6. Use the Help Available to You as an Institutional Client

Many community foundations are surprised to learn their endowment size qualifies them for **preferential fees** (i.e., below what individuals pay at, say, your bank branch or retail broker) and **institutional-level reporting, advice, and service** from some of Canada's most experienced investment managers.

Take the time to learn your options and take advantage of the experience of portfolio managers who work with foundations like yours every day.

On a regular basis, and especially when times get tough, talk with your investment manager and regularly cycle back to Step 1 to review the plan for your specific Foundation. There is no one-size-fits-all solution that will work for every organization, but by focusing on a disciplined process and the factors within your control, you can help build a financially resilient Community Foundation for years to come.

Financial Resources Improve Resiliency		Considerations for Community Foundations
Financial Plan	→	Investment Policy Statement & core mission
Asset Base	→	Investment management & time horizons
Contingency Plans	→	Reserve fund & cash flow planning
Income Stability	→	Diversified funding streams & earned income
Human Capital	→	Financial education, staffing, & governance

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

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