



Courage & Care

Preparing for the Next Market Crisis

A CHECKLIST FOR INVESTMENT COMMITTEES

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February 2020



Introduction

No-one in the investment community knows when the next big market correction is coming, but every investor needs to be ready for it. This checklist can't completely immunise non-profit investors against all the pain of a market crash, but it can help ensure they are as well prepared as possible.

Surviving a market crisis in one piece requires an equal application of courage and care. Non-profit investment committees shoulder ongoing fiduciary obligations, yet many meet only once a quarter. Time pressures and other complications mean it can be difficult for committees to step back and analyse their situation, even when dark clouds are forming on the horizon. Still, when the storm comes, the ones who fare best are likely to be the ones that took the time to properly prepare.

Koda has put together a checklist for non-profit committees in order to make the work of preparation and analysis easier. The checklist is intended for practical use. We recommend investment committee chairs use it for the sake of their committees, their organisations, their stakeholders and ultimately their beneficiaries.

The checklist in this paper can be used by an investment committee ahead of a market crisis, or in its immediate aftermath. We hope you find it useful and we will be happy to see how else Koda might be able to help you, should you find yourself unable to tick all the boxes.

“By failing to prepare, you are preparing to fail.”

– Benjamin Franklin

Investment Committee Checklist

1. Does our investment portfolio support the mission of our organisation?

Why does our organisation exist and does our current approach to investing fit and support what we are here to do?

2. Does our portfolio serve its intended purpose?

What purpose does the portfolio serve (e.g. to fund operating expenses) and is it appropriately structured to deliver what it is expected to deliver for the organisation? Is the purpose itself still relevant?

3. Does our portfolio reflect our values?

Are we able to say we are invested in accordance with our ethical and/or ESG policies and our organisational values?

4. Is our investment policy fit-for-purpose and does our current portfolio reflect it?

Is our investment policy statement still relevant? Have we reviewed it in the last year? Looking at our current holdings, are we in breach of our policy?

5. Are our investment objectives still realistic and appropriate?

Do we have the right goals? Will economic and market conditions allow us to achieve them without exposing our organisation to undue risk?

6. Is our investment strategy still relevant?

Does our chosen strategy give us a realistic opportunity to achieve our objectives without taking unacceptable risk?

7. Do we understand the investments in our portfolio and the level of risk we are exposed to?

Can we confidently say we understand the essential nature of the investments we've made and the risk the organisation is exposed to?

8. Are our investments adequately diversified?

Do we have good diversification within and across asset classes? Is there a low level of correlation between our investments (i.e. is it likely they will behave independently) or are they *merely* diverse?

9. Are we confident our investments are not overvalued?

Have we done anything to confirm that the investments in our portfolio reflect fair value? Have we considered selling investments that are widely believed to be over-valued? Is it time to lock in gains?

10. Will our portfolio withstand significant stress?

Have we stress-tested our current portfolio to see how it will perform in a crisis? Do we understand what would happen in times of high volatility and restricted liquidity? What financial problems would we face?

11. Can we quickly make and implement decisions?

Can we act quickly enough in the event of a crisis? Can we respond well, outside of business as usual? Are our delegations of authority clear and do they work in practice?

12. Are we ready to capture opportunities?

Are we doing what we can to capture investment opportunities as well as avoiding undue risk? Should we consider increasing our allocation to cash in anticipation of a cheaper market?

13. Is our adviser keeping us informed?

Are we hearing enough from our investment adviser and is communication working well? Is our adviser keeping us up-to-date with market developments as they relate to our portfolio and our situation?

14. Is the advice we're receiving conflicted in any way?

Are we getting impartial and unfettered advice? Can we say with confidence that the advice we are receiving is not coloured in any way by ownership, product or commission-based conflicts of interest?

15. Can we explain why we have made the investment decisions we have made?

How well prepared are we to explain our decisions and the reasoning behind our approach to investing the organisation's money? Are we ready to face questioning from key stakeholders and possibly the media?

16. Are we keeping people informed?

Are we actively and regularly communicating with key stakeholders (e.g. our board) and keeping them informed? How well are we managing expectations?

“People talk about long term views and then in a moment of crisis they become very short term”

– Stephen Fitzgerald, former Guardian of Australia's Future Fund and former Chair of Goldman Sachs Australia & New Zealand

What next?

The checklist in this paper is designed to be used by non-profit investment committees. The questions should either serve as the basis of a comprehensive review of a non-profit organisation's investment management arrangements, or the trigger for a discussion at board or committee level.

In anticipation of a market crisis, committees can also follow some basic procedural steps. With minor modification, these steps can also be followed in the immediate aftermath of a major market downturn:

- Meet as soon as possible – markets don't wait for scheduled meetings
- Discuss and complete the checklist in this paper
- Commit to transparency as your best policy
- Produce an action plan you can realistically follow in the event of a crisis
- Include a protocol for timely and regular internal and external communication
- Assign individual responsibilities for the plan and the process
- Confirm who will speak to key stakeholders and/or the media
- Organise activities to educate and otherwise prepare your committee
- Role-play a crisis scenario, to test your response and the timing of it
- Expect the unexpected and expect people to respond differently under stress

Contact Koda for additional guidance and help with completing any of these steps. Feel free to circulate this paper to board and investment committee members in your network.

About the Author



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David heads Koda's Philanthropic & Social Capital team. He provides investment governance advice to charitable, non-profit and philanthropic investors.

In a 30-year private wealth management career David worked for Coutts and Merrill Lynch in the UK. He held senior advisory and leadership positions at Perpetual, where he was head of philanthropy and chair of Perpetual's Trust Investment Committee and JBWere, where he was a Managing Director and a member of the JBWere Charitable Endowment Fund Investment Committee. David is a member of the Centre for Social Impact's Advisory Council, Raise Foundation's Patron's Advisory Council and a Director of three charities: the Sydney Community Foundation, the Foundation for National Parks & Wildlife and BoardConnect. In 2019 David co-founded and became chair of Plus One, a registered charity providing free professional development opportunities to non-profit leaders.

David has completed the AICD's Governance Foundations of Non-Profit Directors course and the Harvard Business School's Governing for Non-Profit Excellence executive education course. He holds the professional trustee designation TEP.

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About Koda's Philanthropy & Social Capital Team

The Philanthropy & Social Capital team at Koda provides expert and impartial advice to non-profit, charitable and philanthropic investors. As a dedicated team advising non-profit investors on a full-time basis, it has a deep understanding and knowledge of issues faced by individuals and committees responsible for investing other people's money. At the time of publication, all members of the team were serving as unpaid directors of Australian charities. These charities are dedicated to protecting nature and the environment, mentoring and supporting young people, supporting people working in the charity sector and building strong communities.

In addition to providing philanthropic and non-profit advice, the team leads Koda's work in the emerging field of impact investing. Koda's pioneering impact investment advisory service gives our clients the opportunity to build portfolios that reflect not just their financial objectives, but their values and their desire to invest in social and environmental change.

The Philanthropy & Social Capital team regularly produces educational white papers and thought leadership articles, including:

- Essential Questions for Board and Investment Committee Members
- Investing for Non-Profits: An Effective Investment Policy Statement
- Top 10 Mistakes of the Australian Non-Profit Investor...And How To Avoid Them
- Investing for Non-Profits: 10 Investment Lessons for NFPs 10 years on from the GFC

To access this content, visit the Insights page of our website, www.kodacapital.com

The team also produces a podcast called *How I Did It*, for the benefit of people interested in for-purpose work. Each episode features a proven leader from the philanthropic or non-profit community talking about how they achieved what they achieved. You can subscribe to the podcast via Apple Podcasts and you can access individual episodes via the Podcasts page of our website, www.kodacapital.com

Koda was ranked number one for Philanthropic Advice in the 2019 Euromoney Private Banking and Wealth Management Awards



About Koda

At Koda Capital we are taking an innovative approach to wealth management - an approach that puts your needs first. Our sole focus is giving our clients tailored financial solutions that are well-informed, independent, and transparent. We act as an investment adviser to philanthropic, charitable and non-profit organisations and we also advise our clients how to make impact investments. We go beyond the provision of tailored investment services, to provide expert advice on best practice, governance, regulation, investment strategy and relevant trends in the sector.

Koda's Commitment to Clients

1. We will always be independent, and free from conflicts of interest that could affect our advice.
2. We will always put our clients' best interests ahead of any other considerations, particularly in respect of any investment or product we recommend.
3. We will agree, in writing, the services we will provide and deliver those services to the standards we promise. Our clients will have access to the best solutions available not just a list of solutions restricted by commercial relationships.
4. We will only earn fees which are paid directly and transparently by our clients, and if we were to receive any commissions they will be fully rebated to our clients for their benefit. We will detail the basis on which the fees are charged and will discuss them with clients at any time. Clients have – and will always have – full discretion to choose the type of fee structure that works best for them: be that on a fee-for-service basis, transaction basis, or asset basis. We believe that as advisers we should be rewarded according to the strength of our client relationships and the success of our financial strategies, not by our ability to promote specific products.

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