



# *Courage & Care*

*Managing Current Market Volatility*

RISK MANAGEMENT FOR INVESTMENT AND  
FINANCE COMMITTEES IN THE TIME OF COVID-19

By David Knowles  
Partner | Head of Philanthropy & Social Capital

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# Introduction

This document is a revised and updated version of *Courage & Care: Preparing for the Next Market Crisis*, which was published by Koda on 4 February 2020, a little over two weeks before the Australian stock market began its steep descent in response to the rising threat of COVID-19. What began as a health crisis quickly became a pandemic that made a victim of the global economy. At the time of writing, short, medium and long-term health and economic outcomes are subject to unusually high levels of uncertainty. At this point, it looks increasingly likely that the people of this planet are in for a long and at times bumpy ride. While investors and non-investors alike would like to know ‘when this will be over’, so we can ‘get back to normal’, it is certain some of the changes brought about by this medical, social and economic shock will be permanent. But then, seismic shock and permanent change is the history of civilisation.

We need not fear change, per se. In fact, for long-term investors, change has historically been favourable. A review of the benchmark S&P 500 index reveals that, historically, on any given day, the probability of an “up move” is about the same as the probability of a “down move”. On a daily basis, investing in the market is basically a coin toss. However a statistical analysis of daily market moves shows that the chance of an “up” move in one month is 62.9%, in one year is 77.9% and in 10 years is 98.7%. It is worth remembering these numbers at a time like this. As we wrote to clients in mid-March 2020, short-term thinking and paralysis are two of the most likely and damaging reactions in the face of a market crisis. At a time like this, action and inaction can have far-reaching consequences.

So, what is our message for non-profit investors? In a nutshell it is this:

- Use this checklist to get a true read on your investment situation – it will help you manage your risk and protect your assets
- Meet now – don’t wait and don’t delay; markets don’t wait for scheduled meetings
- Focus on cash-flow – understand the impact of your potential draw-down needs
- Seek professional advice before making big decisions and make sure this advice comes from people who have managed non-profit portfolios through earlier crises
- Avoid rash decisions – in the short-term, focus on the long-term
- Remember that the worst pain is felt by those who lock-in losses by selling assets after markets fall and who remain in cash while markets recover
- Be guided by your mission and purpose – don’t look at your situation or make any decisions without going back to why your organisation exists and why you are investing

## *How to use this checklist*

This checklist is designed to be used by non-profit committees, principally investment, risk, audit and finance committees; but also boards. The questions should either serve as the basis of a comprehensive review of a non-profit organisation's investment position, or the trigger for an urgent discussion.

We would like to offer some suggestions for how to get the most from this checklist, at a time when working patterns have been disrupted and many are pressed for time:

- View it as a practical way to uncover and reduce financial and reputational risk
- Complete it as soon as possible, individually or as a group
- Don't delegate this task; it is designed for use by those with fiduciary responsibility
- Prioritise this task based on how significant the assets are to the organisation
- Meet as quickly as possible – by video conference or phone, if necessary
- Discuss the questions and answers; look for consensus where views differ
- Consider bringing forward scheduled meetings to avoid risk exposure
- Check what you can implement by circular resolution, so you can act quickly
- Escalate issues the checklist throws up and close out issues quickly to limit risk
- Speak to your adviser for information, support and advice
- Send your adviser an agenda with key questions before meeting with them
- Seek other views (say from contacts on other committees) to widen your lens
- And finally, your finance team is likely to be very busy managing issues thrown up by COVID-19, so try and limit any demands on their time

# Investment Committee Checklist

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**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?

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**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 of each other) or are they *merely* diverse?

**9. Do we clearly understand our drawdown risk?**.....

Are we working with realistic and up-to-date cash-flow projections? Do we understand the liquidity profile of our portfolio? Do we know which assets to liquidate, should the need arise?

**10. Will our portfolio withstand significant stress?**.....

Have we stress-tested our portfolio to see how it will perform in the event of further volatility? 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?**.....

Is our current meeting schedule the right one in this climate? 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 deploying available cash? Are we in a position to deploy our cash at short-notice?

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**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?*

Getting on top of investment issues and managing risk should be an urgent task for non-profits that depend on investment income and the security of their capital reserves. At a time when normal operating procedures might prove to be inadequate, committees need to be flexible about the way they work and the way they interact with their advisers and stakeholders.

In the midst of the current COVID-19 crisis, committees can follow some basic procedural steps:

- Discuss and complete the checklist without delay
- Refer to your Investment Policy Statement and Committee Charter
- Meet as soon as possible – markets don't wait for scheduled meetings
- Consider meeting more than usual during this period of volatility
- Agree a management plan you can follow for the next three months or so
- Assign individual responsibilities for the plan
- Include protocols for timely and regular internal and external communication
- Confirm who will speak to key stakeholders and/or the media
- Commit to transparency as your best policy
- Role-play a crisis scenario, to test your response and the efficacy of it
- Seek advice from professional investors with experience of market crises
- Organise activities to educate and inform your committee
- Expect the unexpected and expect people to respond differently under stress

You can contact Koda at any time for additional guidance and help with your investment management arrangements. Feel free to circulate this paper to board, investment committee and finance team members in your network.

*“Have the courage to act instead of react.”*

– Oliver Wendell Holmes, Sr.

## *About the Author*



David Knowles  
Partner | Head of Philanthropy & Social Capital

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.

Contact Koda's Philanthropy & Social Capital team:

David.Knowles@kodacapital.com | 0429 726 277  
Chris.Wilson@kodacapital.com | 0428 866 607

# *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](http://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](http://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.

## Disclaimer

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