Bookshelf

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Foundation Management in Canada: An Introduction for Trustees

By Milton K. Wong, Leopold Amighetti, Jane Butterfield and Patti Ryan

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Investment management is becoming increasingly complex and competitive. Foundations are not simply financiers of charitable activities, they are also institutional investors charged with maintaining and enhancing the charitable resources within their control. This is a book put together by an investment counselling firm owned by the Hong Kong Bank of Canada with assistance from the Vancouver legal firm of Russell and DuMoulin, and the accounting firm Price Waterhouse. It is an excellent introductory study of Canadian foundation management issues, covering the role of foundations in Canadian society, the legal concerns of foundation trustees, finance and accounting issues and, as you would expect, managing investments. It includes sample financial statements for foundations which are current with recent pronouncements of the Canadian Institute of Chartered Accountants.

Milton Wong notes in his introduction that the book was produced because there did not seem to be a Canadian publication discussing the various elements involved in managing a foundation, which is correct. What he has produced is a book useful not only to Canadian foundation boards and managements, but also to the broader not-for-profit sector.

There is a clear description of the federal disbursement requirements contained in the *Income Tax Act* for both charitable organizations and charitable foundations and an interesting summary of both individual and corporate giving in Canada, taken from statistics supplied by the Canadian Centre for Philanthropy.

Surprising in a book like this is an extensive and current discussion of accounting records and internal accounting functions, financial reporting and statement disclosure. There is even a discussion of the measuring of volunteer contributions and the comment that the true cost of any not-for-profit service is the cost of actual expenses added to the value of contributed time and materials.

After a discussion of governance, the book gets into a discussion of managing investments. For this reviewer this was the most interesting part. While foundation and other not-for-profit managements and boards are often looking for "the simple answer" to the question of what mix of equities and debt is appropriate for their invested funds, the more complex answer is that in addition to the "mix", one must consider spending policies and the short- and long-term goals of the particular organization. Probably the best advice given is, "Ideally, the foundation should design its own benchmark in consultation with investment managers and outside consultants".

The authors state that they believe the most critical investment issue for foundations is striking a balance between a sufficiently aggressive investment policy and a sufficiently generous spending policy. This is true of course for all not-for-profit organizations. There is an interesting discussion in this connection of four possible spending patterns: pay out all interest and dividends, pay out a certain percentage of the portfolio quarter-end value, pay out a fraction of the quarter-end value minus the initial value multiplied by the rate of inflation for the quarter, or pay out a three-year moving average of all interest and dividend payments. [See also Nancy Grant's article on page 56.]

All in all the book provides an interesting and useful discussion of the factors that need to be considered by foundations and other not-for-profit organizations *vis-à-vis* investments, legal issues, risk and need. This is a book that will help many in their consideration of the four spending patterns noted above and the additional criteria of stability of payouts, amount of payouts, and the remaining value of the portfolio after payouts have been made.

The authors' conclusion is sound and not surprising. Investment planning—setting objectives, developing a strategy, monitoring and adjusting the portfolio, and putting the policy in writing—should be based on research, logic and a clear understanding of all factors necessary to a sound decision-making process.

Three interesting charts trace the annual returns on stocks, bonds and cash from 1956 to 1996. Seeing the volatility of markets in this way, and over time the relatively low (compared to recent years) rate of return on assets alone, would be a help to many trustees of foundations and other not-for-profit organizations with endowments and other accumulated trust funds.

This is an interesting and useful book, especially when coupled with a recent investment article in *The Philanthropist* that discusses the difficulties of asset allocation,[1] and a discussion of whether investments in mutual funds are permissible in Ontario under the *Trustee Act*;[2] the conclusion under recent case law being that they are not; however, under their incorporating act some organizations are exempt from following the investment guidelines of the *Trustee Act*. (Rather, they need to follow the "prudent man" concept, others come under the *Trustee Act*, and for some organizations in some jurisdictions the issue is debatable.)

Regulatory, legal and traditional restrictions on investments by trustees are complex and this book is well put together with reminders of the technicalities and the commonsense governance factors that trustees should consider in both investment and other matters involving their particular not-for-profit organizations.

Recent studies indicate that despite some evidence of considerable sophistication, many foundations are giving insufficient attention to preserving and enhancing the available philanthropic resources under their control.[3] Following the suggestions in this book might help improve both process and performance.

Historically, over hundreds of years, real rates of return have been around three per cent. This has not been true recently; particularly in the case of portfolios heavily into equities. With the sharp decline in interest rates this year, and pressure for higher payouts to meet expenditure budgets, trustees of foundations and other not-for-profits will be under increasing pressure to adopt investment strategies that will yield better returns over the long run by increasing investment in equities, real estate and private equities, and reducing the investment in fixed income securities. Careful consideration of the factors noted in this book will be of assistance in this process.

FOOTNOTES

1. David P. Keeley, "Asset Allocation: Objectives, Implementation, Performance and Evaluation" (1996), 13 *Philanthrop.* No. 1, pp. 54-64.
2. James Phillips, "Recent Legal Developments" (1996), 13 *Philanthrop.* No. 2, p. 37.
3. Lester M. Solamon, "Foundations as Investment Managers: The Process and the Performance", *Nonprofit Management and Leadership.* Vol. 3, Nos. 2 and 3.