Understanding Your Fiduciary Duty

As a not-for-profit board member, understanding your fiduciary duty means having a firm grasp of investment-related topics and recognizing how the decisions you make impact the long-term viability of the organization. A board member well-versed in their fiduciary responsibilities is positioned to make a positive impact on a not-for-profit's mission while avoiding any pitfalls that result from fiduciary negligence.

To further explore the financial operations of not-for-profit organizations and the regulations governing them, this paper will cover the prudent management of investment assets, the dynamics facing finance and investment committees, and how investment committee members can directly impact not-for-profit governance.

Duties of the Not-for-Profit Board according to UPMIFA

UPMIFA, which stands for the Uniform Prudent Management of Institutional Funds Act, is the United States' most comprehensive guidance for the management, investment, and expenditure of endowment funds from charitable institutions. Originally enacted in 1972, the most recent revision of the Act was adopted in 2006 by the National Conference of Commissioners on Uniform State Laws. As of 2012, all states except Pennsylvania have adopted the guidelines. Generally, all organizations that are operated solely for charitable purposes, which include not-for-profits, charitable trusts, and government entities holding funds for charitable purposes, are covered by UPMIFA.

There are several key standards of conduct for managing and investing endowments. Organizations must understand their cost to invest and current economic conditions. Boards are expected to make investment decisions in context with the organization's overall portfolio and long-term needs. They are also expected to review return targets and ensure that the organization is taking on an appropriate level of risk. Documents like an Investment Policy, a Spending Policy, and a Gift Acceptance Policy can help organizations institutionalize many of the key UPMIFA requirements. All charitable organizations should consult their state's version of UPMIFA to determine the key governance factors to consider when overseeing endowments. In particular, they must have an understanding of the purpose, duration, and return expectations for the endowment funds so that these factors can be codified in the organization's Investment Policy Statement and used as a compass for prudent investment management.

Exhibit 1 - Key Standards of Conduct for Managing and Investing Endowment According to UPMIFA

UPMIFA, Section 3	(c)(1)	Organizations should know the total cost for the management and administration of their investment assets
	(e)(1)(A)	Organizations should be aware of current economic conditions when making decisions about the management of investment assets
	(e)(1)(D)	Individual investments and investment strategies should always be considered within an overall portfolio framework
	(e)(1)(E)	There is an expectation that organizations periodically review the expected returns of investment assets over which they have responsibility
	(e)(3)	Except as otherwise provided, organizations may invest in any kind of property or type of investment
	(e)(5)	Risk and return objectives should be reasonably suited to the fund and institution
	(e)(2)	All charitable organizations should have a Gift Acceptance Policy

SunTrust®

Duties of Finance and Investment Committee Members

While the fiduciary duty to govern a charitable organization lies with the entire board, the finance and investment committees have a unique set of responsibilities that help ensure the long-term sustainability of the organization.

The Committee should:

- Prepare financial statements
- Oversee disbursements and monitor donation receipts
- Annually review and affirm finance policies, specifically the Investment Policy Statement
- Advise the full board on financial matters and strategy
- Routinely meet with outside investment advisors or consultants
- Coordinate as needed with other finance-related committees, like the audit committee.

Of course, teamwork is vital to the success of a high performing finance and investment committee and this requires collaboration not only with committee members but with organization staff as well.

Exhibit 2 - Top 7 Responsibilities of a Not-for-Profit Finance and Investment Committee

Duties of Individual Board Members

What can an individual board member do to positively contribute to the overall governance and financial health of the board that they serve?

Board members can:

- Become involved in the strategic planning process for the organization and ensure that the finance and investment perspective is integrated into the organization's approach
- Encourage a diversity of thoughts and opinions by bringing new and exciting voices to the decision-making table
- Ensure investment guidelines are in line with an organization's goals and spending needs
- Define investment success and measure performance routinely
- Insist on an annual review of an organization's Investment Policy Statements to ensure full board understanding.

Although the fiduciary duties of not-for-profit board members are vast and somewhat complex, the policies and guidelines discussed in this paper can provide a roadmap to ensure board members understand their important fiduciary duties.

About SunTrust Foundations and Endowments Specialty Practice

SunTrust has nearly a century of experience working with not-for-profit organizations. Fiduciary stewardship is the heart of our culture. We are not merely a provider for our clients; we are an invested partner sharing responsibility for prudent management of not-for-profit assets. Our client commitment, not-for-profit experience and fiduciary culture are significant advantages for our clients and set us apart from our competition. The Foundations and Endowments Specialty Practice is dedicated to working with not-for- profit organizations. Our institutional teams include professionals with extensive not-for-profit expertise. These professionals are actively engaged in the not-for profit community and are able to share best practices that are meaningful to their clients. Team members offer guidance and advice tailored to the various subsets of the not-for-profit community, including trade associations and membership organizations. Our Practice delivers comprehensive investment advisory, administration, planned giving, custody, trust and fiduciary services to nearly 700 not-for-profit organizations. We administer $35 billion in assets for trade associations, educational institutions, foundations, endowments and other not-for-profit clients.[1]

[1] As of June 30, 2019

A special thank you to Quanda Allen, Director of Practice Management and Laura Galaida, Client Manager for their contributions to this whitepaper.

For more information about the SunTrust Foundations and Endowments Specialty Practice, please visit us at www.suntrust.com/foundationsandendowments or www.suntrust.com/nonprofitinsights

www.suntrust.com/foundationsandendowments
866.223.1499

The information and material presented in this commentary are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this commentary. Investing in any security or investment strategies discussed herein may not be suitable for you, and you may want to consult a financial advisor. Nothing in this material constitutes individual investment, legal or tax advice. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. SunTrust Bank and its affiliates and the directors, officers, employees and agents of SunTrust Bank and its affiliates (collectively, "SunTrust") are not permitted to give legal or tax advice. Clients of SunTrust should consult with their legal and tax advisors prior to entering into any financial transaction.

Securities and Insurance Products and Services:
• Are not FDIC or any other Government Agency Insured • Are not Bank Guaranteed • May Lose Value

SunTrust Private Wealth Management is a marketing name used by SunTrust Bank, SunTrust Delaware Trust Company, SunTrust Investment Services, Inc., SunTrust Advisory Services, Inc., and GFO Advisory Services, LLC which are each affiliates of SunTrust Banks, Inc. Banking and trust products and services, including investment management products and services, are provided by SunTrust Bank and SunTrust Delaware Trust Company. Securities and insurance (including annuities) are offered by SunTrust Investment Services, Inc., a SEC registered broker-dealer, member FINRA, SIPC, and a licensed insurance agency. Investment advisory services are offered by SunTrust Advisory Services, Inc., a SEC registered investment adviser. GFO Advisory Services, LLC is a SEC registered investment adviser that provides investment advisory services to a group of private investment funds and other non-investment advisory services to affiliates.

©2019 SunTrust Banks, Inc. SUNTRUST and the SunTrust logo are trademarks of SunTrust Banks, Inc. All rights reserved.
CN2019-8054-EXP 08/20

DGD681002A 08/19