Investment Management Code of Conduct for Endowments, Foundations, and Charitable Organizations

CFA INSTITUTE

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Preamble

Philanthropic individuals and organizations around the world provide financial resources to entities dedicated to improving the human condition. These groups' philanthropic activities provide basic necessities in times of need, improve access to education and health care, fund research and technological improvements, and support a variety of worthy causes. The nearly universal goal of these organizations and the founding **donors**[1] is to achieve a positive and lasting impact on society.

The legal framework for **endowments, foundations, and charitable organizations** is defined through various national, state, and common laws. Functional requirements may be similar in design across different countries, but their differences create a patchwork of common names for organizations involved in this work. Independent foundations, charitable trusts, public funds, philanthropies, education endowments, and charitable companies are just some of the names given to organizations working to support and enhance their communities. Regardless of their names, these organizations provide resources to advance their stated **mission**.

Over the years, governance regulations and rules have developed for the endowment, foundation, and charitable sectors. Much of the focus has been on the management of the grant-making process, with a lesser emphasis on the management of the **financial resources** of philanthropic organizations. This Investment Management Code of Conduct for Endowments, Foundations, and Charitable Organizations (the Code) was developed specifically to address the management of what are typically longer-term or permanent financial assets of these groups. Endowments, foundations, and charitable organizations, through their **Governing Body** members, as responsible stewards of the financial resources, should uphold the general principles of conduct in the management of these assets and the organization.

The source and extent of the financial resources that support the work of endowments, foundations, and charitable organizations may vary widely. Some organizations are founded by a single donation from a family or corporation to advance specific goals. The donation can represent a permanent endowment, from which only the income is used to satisfy funding and requests. Other organizations are constantly raising funds from multiple sources that may either fund current operations or establish a longer-term endowment. In all cases, sound management of these financial resources through following fundamental principles and recognized standards of professional conduct is important to properly protect these assets.

The Code is designed with the goal of establishing best practice for the organization's members, volunteers, and/or paid staff responsible for managing the entity's financial assets. The incorporation of the ethical principles embodied in the Code will enhance the policies and procedures related to the management of the financial resources. Our intent is that organizations around the globe will adopt the Code to demonstrate their commitment to serve their mission and the best interest of all **stakeholders** to their particular endowments or charitable organizations.

[1] Bold indicates terms defined in the Appendix.

The Code is not meant to represent a comprehensive operational guide for the responsibilities of those who serve in a leadership position for endowments, foundations, and charitable organizations. Guidance for the fulfillment of the broader responsibilities with regard to their overall operations is currently available from many organizations, including several that participated in the development of this Code. These groups are more appropriately prepared to address the specifics of the legal structures applicable to a particular organization.

A number of individuals and organizations participated in the development of the Code. Working together, they contributed their knowledge and expertise in the endowment, foundation, and charitable arena to establish a set of high-quality standards and related guidance for the long-term management of endowed assets.

CFA Institute would like to thank the following organizations for participating in the development and release of this Code:

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Acknowledgment of Claim of Compliance

Organizations that elect to adopt or comply with all the principles of the Code are encouraged to notify CFA Institute of such claims. Many organizations already have codes of ethics and other policies and procedures that address or go beyond the principles and provisions of the Code. Adoption of or compliance with the Code does not require a firm to amend its existing code of ethics or other policies and procedures as long as they are at least consistent with the principles and provisions set forth in the Code. Although Governing Body members are strongly encouraged to review and consider all the guidance when developing and reviewing their organization's codes and other policies and procedures, because of the many variables in size and complexity among endowments, foundations, and charitable trusts, some portions of the guidance may not be applicable.

Organizations can notify CFA Institute of their claim of compliance with the Code through the CFA Institute online notification process. This acknowledgment form is for communication and information-gathering purposes only and does not represent that CFA Institute engages in enforcement or quality control of an organization's claim of compliance. CFA Institute does not verify the endowment's, foundation's, or charitable organization's claim of compliance or actual compliance with the Code.

General Principles of Conduct

Individuals associated with endowments, foundations, and charitable organizations who are responsible for the oversight and stewardship of the financial resources of such organizations must:

A. Act with loyalty and proper purpose.

B. Act with skill, competence, prudence, and reasonable care.

C. Abide by all laws, rules, regulations, and founding documents.

D. Show respect for all stakeholders.

E. Review investment strategy and practices regularly.

Investment Management Code of Conduct for Endowments, Foundations, and Charitable Organizations

A. Act with loyalty and proper purpose.

Members of the Governing Body must:

1. Establish sound investment management practices that seek to maximize impact of the organization's activities.
2. Understand the organization's mission and appropriately consider its impact within the **investment strategy**.
3. Place the interest of the organization, its donors, and its **beneficiaries** above their own.
4. Avoid conflicts of interest pertaining to the implementation of the organization's investment strategy whenever possible. Disclose annually and manage actual and perceived conflicts of interest that realistically cannot be avoided.
5. Not solicit, offer, or accept any gift, benefit, or consideration personally that could reasonably be expected to affect their loyalty to the organization.
6. Not place unreasonable constraints on future Governing Body members in the management of the endowed resources.

B. Act with skill, competence, prudence, and reasonable care.

Members of the Governing Body must:

1. Dedicate sufficient time to prudently implement the organization's investment objectives and policies.
2. Maintain an appropriate level of knowledge of investment markets, products, and strategies in order to fulfill their duties.
3. Have a reasonable and adequate basis for investment decisions supported by active and thorough due diligence of the investment strategies of the organization.
4. Appropriately manage the financial risks of the organization and the endowed resources.
5. Utilize external professionals when appropriate in the development, implementation, and review of the organization's investment strategy.

C. Abide by all laws, rules, regulations, and founding documents.

Members of the Governing Body must:

1. Understand and ensure compliance with the laws, regulations, and governing documents pertaining to the organization's investment practices.

2. With regard to the organization's financial resources, report any suspected illegal, unethical, or financial irregularities to the appropriate parties.

D. Show respect for all stakeholders.

Members of the Governing Body must:

1. Take actions to maximize benefits from the endowed resources for the intended **lifespan** of the organization.
2. Ensure a proper balance of all applicable stakeholders' interests in the operations of the organization while respecting the intention of the organization's donors.
3. Seek to minimize the volatility of beneficiary and operational budgetary support through prudent financial management.
4. Maintain confidentiality and establish policies and procedures that address retention and/or redistribution of information.
5. Communicate with stakeholders in a timely, accurate, and transparent manner.

E. Review investment strategy and practices regularly.

Members of the Governing Body must:

1. Assess the performance and integrity of investment managers in stewardship of the endowed resources by an agreed upon set of standards, benchmarks, and metrics.
2. Review the actions of the investment committee regarding performance in implementing and adherence to the principles of the organization's investment strategy and policies.
3. Review and adjust investment practices and strategies to best meet the organization's objectives and to maximize benefits available from the endowed resources.

Guidance

Development and implementation of an investment management code is insufficient by itself for an organization to meet its ethical and regulatory responsibilities. Organizations must adopt detailed policies and procedures to effectively implement their code of conduct. This section provides guidance explaining the Code and includes recommendations and illustrative examples to assist in implementing the Code. These examples are not meant to be exhaustive, and the policies and procedures needed to support the Code will depend on the particular circumstances of each organization and the legal and regulatory environment of the organization.

A. Act with loyalty and proper purpose.

Members of the Governing Body must:

1. **Establish sound investment management practices that seek to maximize impact of the organization's activities.**

   Governing Body members have the responsibility to manage the financial resources to maximize the potential benefits, including the development and maintenance of an investment strategy for the organization. The investment strategy should consider the ability to sustain the viability of the organization while providing for expenditures in support of the mission.

   In carrying out their responsibilities, effective members will

   - Draft a written investment strategy that includes a discussion of risk tolerances, return objectives, lifespan (spend-down or perpetual), liquidity requirements, liabilities, tax considerations, and any legal, regulatory, or other unique circumstances.
   - Only take investment actions that are consistent with the stated objectives, benchmarks, metrics, and constraints of the established investment strategy.
   - Consider the suitability of investments given the needs of the organization, its future (or projected) liabilities, and its risk tolerance, as assessed by the Governing Body.
   - Select investment options within the context of the stated mandates or strategies and appropriate asset allocation.
   - Establish policy frameworks within which to allocate risk for an appropriate asset mix. Include the establishment of frameworks within which to monitor performance of the asset mix policies and other investment risks of the overall organization.
   - Work to achieve the proper investment blend to reflect the sometimes competing interests among the different stakeholders while focusing on long-term stability and growth.
   - Maintain records for an appropriate period of time in an easily accessible format. Unless otherwise required by local law or regulations, organizations should keep records for at least seven years.

2. **Understand the organization's mission and appropriately consider its impact within the investment strategy.**

   The mission statement embodies the values and purpose of the organization. Governing Body members must embrace these fundamental principles in the oversight of the organization. The members have to decide how best to incorporate the principles into the management of the endowed resources. The investment strategy may include either, or both, explicit requirements or prohibitions regarding the nature of allowable investments unique to the organization that support or detract from the mission.

   Balancing the different interests of all stakeholders while protecting the integrity and reputation of the organization can be difficult. Outside parties' view of the organization includes an assessment of how well the integrity of its actions aligns with the stated mission. This assessment primarily focuses on the use of the granted resources but may also include a review of the investments held by the organization. Governing Body members will need to balance the impact on investment returns with the possible loss of reputational integrity resulting from actions considered a deviation from the mission.

   In carrying out their responsibilities, effective members will

   - Consider the need for and development of investment recommendations and/or limitations of factors related to the organization's mission within the design or update of the investment strategy.
   - Maintain a list of industries, sectors, or activities classified as prohibited investments by the organization (e.g., tobacco, gambling, weapons manufacturing).
   - Ensure that all requirements and limitations are being followed in the implementation of the investment strategy.
   - Provide adequate disclosure of investment actions taken so others can properly assess compliance with any stated limitations.

3. **Place the interest of the organization, its donors, and its beneficiaries above their own.**

   In the management of the endowed assets, the organization represents the primary client, whose interest is paramount. Governing Body members owe a duty of loyalty to the organization when executing the investment strategy. The overriding objective of the endowment, foundation, or charitable organization is to provide a secure source of resources for providing a positive and lasting impact on society.

   In carrying out their responsibilities, effective members will

   - Take reasonable steps to avoid situations in which possible conflicts arise between these various interests.
   - Safeguard the financial health of the organization by managing the risk/return characteristics of the financial resources.
   - Avoid influence by outside organizations in executing their responsibilities.

4. **Avoid conflicts of interest pertaining to the implementation of the organization's investment strategy whenever possible. Disclose annually and manage actual and perceived conflicts of interest that realistically cannot be avoided.**

   Governing Body members should endeavor to avoid actual and perceived conflicts of interest between their work with the organization and other personal and outside interests. Conflicts of interest are many and varied, but the interest of the organization and its reputational integrity are paramount.

   Effective members will

   - Strive to avoid even the appearance of impropriety. Outside duties, responsibilities, or financial interests should not influence their decisions.
   - Take great care to put their duty to the organization before their loyalty to the sponsoring entity that appointed them.
   - Take precautions so as not to put themselves in a position whereby they will personally profit at the expense of the organization.
   - Avoid entering into any employment or contractual relationships with, or any interest in, firms that provide services to the organization.
   - Not be involved in any retention or termination decisions of such firms or otherwise vote on matters related to their firm.

   The overriding principle is that Governing Body members should act in the best interest of the organization. To the extent that conflicts of interest cannot be avoided, members need to be able to recognize such conflicts and take appropriate measures to deal with and manage the situations by disclosing perceived and actual conflicts of interests on a regular basis.

   In carrying out their responsibilities, effective members will

   - Ensure the organization has procedures in place regarding disclosure and management of conflicts of interest. Policies, including personal trading restrictions, should be appropriate for the circumstances and level of control that the member has over trading decisions of the portfolio, with at least annual updates required.
   - Adhere to all disclosure requirements for all actual and perceived conflicts of interest.
   - Abstain from a vote or exclude themselves from any deliberations in which they have a direct conflict.

5. **Not solicit, offer, or accept any gift, benefit, or consideration personally that could reasonably be expected to affect their loyalty to the organization.**

   Maintaining one's independence and objectivity is critical to upholding as paramount the interest of the organization. Situations may arise whereby dealings with outside parties may be influenced through the exchange of benefits. Governing Body members should take appropriate steps to ensure that the independence and objectivity of their decision is unencumbered by outside duties or loyalty.

In carrying out their responsibilities, effective members will

- Refuse any gift or benefit that could reasonably be expected to affect their independence, objectivity, or loyalty.
- Refuse to receive or accept, directly or indirectly, any gift, service, favor, entertainment, or any other thing of value from anyone currently engaged by, or seeking business from, the organization if it could reasonably be expected to influence a decision or be considered a reward. The organization should establish a written policy limiting the acceptance of gifts and entertainment in a variety of contexts.
- Refuse to accept gifts or entertainment of more than a minimal value from service providers, consultants, potential investment targets, or other business partners. Organizations should define what the maximum allowable value is and should consult applicable regulations, which may help establish limits as well. The organization should also create a reporting mechanism for disclosure of gifts and consider creating limits (e.g., amount per time period or per vendor) for accepting gifts and prohibit the acceptance of any cash gifts.
- Not allow political interests, philosophy, or political party loyalty to influence decisions made on behalf of the organization beyond those included in its mission.
- Not use the prestige or influence of their position for private gain or advantage.
- Not solicit political contributions from service providers to the fund, either personally or on behalf of another.

6. Not place unreasonable constraints on future Governing Body members in the management of the endowed resources.

Governing Body members should consider the impact their investment decisions might have on future investment opportunities. Certain investments, such as specific hedge funds or private placements, may require defined lockup periods that prohibit access to the invested capital. Although investments of this nature may meet the investment objectives and risk tolerance of the organization, such arrangements may affect future members' ability to effectively manage the financial resources to meet the funding needs of the organization.

In carrying out their responsibilities, effective members will

- Consider liquidity when constructing the portfolio to avoid unwarranted or concentrated liquidity risks.
- Incorporate, as appropriate, limitations or restrictions on investments with defined capital lockup periods.
- Ensure adherence to all defined investment limitations and restrictions.

B. Act with skill, competence, prudence, and reasonable care.

Members of the Governing Body must:

1. Dedicate sufficient time to prudently implement the organization's investment objectives and policies.

Effective Governing Body members will exhibit care and prudence necessary to meet their obligations to the organization. The exercise of prudence requires acting with the appropriate level of skill and diligence that a person acting in a like capacity and familiar with such matters would use under the same circumstances.

In carrying out their responsibilities, effective members will

- Act in a judicious manner to avoid harming any stakeholder of the organization.
- Act in good faith, with proper motive and purpose.
- Exercise power and discretion consistently.
- Follow the investment strategy of the organization and applicable regulations.

2. **Maintain an appropriate level of knowledge of investment markets, products, and strategies in order to fulfill their duties.**

   Governing Body members will possess different educational and professional backgrounds. Acting with skill and competence requires different steps to be undertaken by each member. Each member should make a conscious effort to remain knowledgeable and capable of the duties entrusted upon them, such as attending educational conferences or training seminars. Improper or ill-advised decisions can be costly to the reputational integrity and operations of the endowment, foundation, or charitable organization.

   In carrying out their responsibilities, effective members will need an understanding of

   - Local and/or national laws and regulations.
   - Organizational investment policies and procedures.
   - Strategies in which the organization is investing.
   - The basic structures and functions of the selected investments and securities in which the organization is investing.

3. **Have a reasonable and adequate basis for investment decisions supported by active and thorough due diligence of the investment strategies of the organization.**

   Governing Body members should analyze the investment opportunities presented and act only after undertaking due diligence to ensure there is sufficient knowledge about specific investments or strategies. The level of analysis will depend on the nature and complexity of the investment or strategy used. By undertaking adequate due diligence, members can better judge the suitability of the investments for the organization.

   In carrying out their responsibilities, effective members will need an understanding of

   - How investments and securities are traded, their liquidity, and associated risks (including counterparty risks).
   - Investment research used, including the thoroughness of the analysis performed and the timeliness and completeness of the information.
   - The assumptions used in recommending a particular security or strategy, including related risks, inflation assumptions, and expected rates of return.

4. **Appropriately manage the financial risks of the organization and the endowed resources.**

   Assuming different types of risk, including principal risk, is a necessary part of the management of financial assets. Risks include but are not limited to market risk, credit risk, liquidity risk, and concentration risk. The key to sound risk management is identifying, evaluating, and reviewing the portfolio's risk metrics so as to ensure that the risk tolerance outlined in the organization's documents aligns with the risk profile of the investments held in the portfolio as a whole. Governing Body members will need to rely on their judgment and experience when analyzing the portfolio's risk metrics.

In carrying out their responsibilities, effective members will

- Incorporate risk tolerance attributes, such as required fixed-income characteristics or limitations, allowable levels of hedged and derivative investments, and other specific risk limitations, in the organization's investment strategy.
- Adhere to and enforce these requirements when making investment decisions.
- Regularly evaluate and challenge the stress test and scenario test performed in order to comprehensively capture the full range of the risk exposures of the portfolio.
- Seek appropriate expert or professional guidance if they believe they are lacking the expertise necessary to make an informed decision.

5. **Utilize external professionals when appropriate in the development, implementation, and review of the organization's investment strategy.**

Endowments, foundations, and charitable organizations may employ experts to advise, direct, and implement the investment decisions of the Governing Body. The external professionals partner with the members in carrying out their responsibilities to the organization. The delegation of certain responsibilities, including the analysis and selection of individual investments, to experts is a prudent option. Members retain the ultimate duty and responsibility to monitor the external professionals and ensure that their objectives are carried out appropriately.

Members can rely on external professionals provided that the member has made reasonable and diligent efforts to

- Determine that the external professional acts with appropriate skill, competence, and diligence.
- Determine that the external professional is independent and free of conflicts of interest and has the proper incentive to act in the best interest of the organization.
- Ensure that the external professional's decisions have a reasonable and adequate basis and that the decision process is adequately documented.
- Document both expectations and benchmarks in order to objectively evaluate the performance of the external professionals hired.

Additionally, members should develop disciplined decision rules for hiring, firing, and retaining investment managers that foster a long-term investment focus and are consistent with the organization's investment strategy.

C. Abide by all laws, rules, regulations, and founding documents.

Members of the Governing Body must:

1. **Understand and ensure compliance with the laws, regulations, and governing documents pertaining to the organization's investment practices.**

As a general matter, endowments, foundations, and charitable organizations operate in complex, varied, and regulated environments. Generally, Governing Body members are not expected to master the nuances of technical, complex law or become experts in compliance with applicable regulations. Policies and procedures are critical tools to ensure that organizations meet their legal and ethical requirements. Specific policies and procedures supplement the fundamental principle-based ethical concepts embodied in this Code. Documented compliance procedures will assist members in fulfilling their responsibilities.

An organization's ethical and professional conduct code does not absolve Governing Body members of the requirement to abide by the laws and regulations applicable to the organization. An endowment, foundation, or charitable organization is allowed to develop policies and procedures that aspire to place requirements upon members that are more strict than the legal requirements.

Effective members will

- Ensure that the organization has adopted and updated compliance policies and procedures designed to maintain compliance with laws and regulations that apply to the organization.
- Ensure that the organization has adopted appropriate processes to remain current and knowledgeable of applicable laws and regulations.
- Ensure that the organization maintains appropriate personnel to monitor oversight of these processes and implementation of its code of conduct.
- Consult with professional advisers retained by the organization to provide technical expertise on applicable law and regulation.

2. **With regard to the organization's financial resources, report any suspected illegal, unethical, or financial irregularities to the appropriate parties.**

Endowments, foundations, and charitable organizations are covered by a variety of laws and regulations. Combining these requirements with internally developed policies and procedures and with the involvement of external professionals, there are multiple situations whereby illegal or unethical actions may occur regarding the management of the financial resources. Governing Body members should take appropriate actions to protect the interest of the organization and integrity of the philanthropic sector.

In carrying out their responsibilities, effective members will

- Ensure the organization develops policies and procedures for reporting inappropriate actions of stakeholders. This includes the development of an appropriate policy for stakeholders to anonymously report suspected concerns without fear of future retaliation.
- Report illegal activities to governmental and regulatory authorities as required.
- Report suspected unethical activities to appropriate parties in accordance with the organization's compliance procedures.
- Consult with legal counsel for guidance when necessary.

D. Show respect for all stakeholders.

Members of the Governing Body must:

1. **Take actions to maximize benefits from the endowed resources for the intended lifespan of the organization.**

Competing goals exist within organizations as beneficiaries create a current demand for resources while others are concerned with ensuring the ability to meet future obligations. The potential conflict between the groups will be affected by the intended lifespan of the organization (e.g., a spend-down versus perpetual organization). Governing Body members will need to prudently manage these differing goals by considering the societal enhancements generated along with the financial health and viability of the organization in making their investment decisions.

In carrying out their responsibilities, effective members will

- Manage the expenses associated with implementing the investment strategy.
- Consider the adequate matching of the expected allocation of resources with the returns provided by the financial resources.
- Consider the impact of draws against the financial resources on the intended lifespan of the organization.
- Consider all relevant risk and value factors deemed appropriate within the design or updating of the investment strategy.

2. **Ensure a proper balance of all applicable stakeholders' interests in the operations of the organization while respecting the intention of the organization's donors.**

   An endowment, foundation, or charitable organization is judged by the impact that the resources granted bring to the individual beneficiaries and society as a whole. Many times, the endowed financial resources are the sole or primary funding source for providing resources to beneficiaries for the lifespan of the organization. To maintain the trust placed in them by the various stakeholders, Governing Body members need to deal with all participants in a fair and objective manner. Members should not give preferential treatment to a particular type of stakeholder in executing their investment decisions. The organization needs to honor the mission outlined by the donors for the intended lifespan of the financial resources, which includes the provision of funds necessary to operate the organization and in the fulfillment of the committed beneficiary grants. Governing Body members must balance the interests of all types of stakeholders and treat each class fairly.

3. **Seek to minimize the volatility of beneficiary and operational budgetary support through prudent financial management.**

   Longer-term beneficiary grants and the operating budgetary needs of the organization depend on cash flow generated from the endowed financial resources. Significant deviations from the level of funds committed can negatively affect the operations and reputational integrity of the organization. Governing Body members must adhere to the requirements and constraints of the organization's investment strategy in executing investment decisions, including any minimum annual funding requirements.

4. **Maintain confidentiality and establish policies and procedures that address retention and/or redistribution of information.**

   Effective Governing Body members hold as strictly confidential all information communicated to them in the context of their duty to the organization, and they take all reasonable measures to preserve this confidentiality. This discretion applies to information related to stakeholders as well as any information that may affect the organization's competitive investment ability (e.g., detailed security transactions, investment holdings, private equity transactions, and merger and acquisition information). Effective members ensure that the organization has in place a privacy policy that addresses how confidential information will be collected, used, stored, and protected and should ensure that this policy extends to external agents and delegates.

5. **Communicate with stakeholders in a timely, accurate, and transparent manner.**

   Full and fair disclosure of relevant information is a fundamental ethical principle of capital markets and the investment services industry. The development and maintenance of clear, timely, and thorough communication practices are critical to providing high-quality services to all stakeholders of the organization. Governing Body members should establish lines of communication that fit their investment circumstances.

   In carrying out their responsibilities, effective members will

   - Provide the organization with meaningful investment performance information, incorporating all relevant factors, on a regular timetable, at least quarterly.
   - Provide regular and consistent updates, at least annually or whenever a change occurs, concerning the use of external professionals and include the expectations and benchmarks used to evaluate those professionals.

   Governing Body members must ensure that misrepresentation does not occur within oral representations, electronic communications, or written materials (whether publically disseminated or not). To be effective, disclosure of information must be made in plain language and in a manner designed to effectively communicate the actions undertaken.

E. Review investment strategy and practices regularly.

Members of the Governing Body must:

1. **Assess the performance and integrity of investment managers in stewardship of the endowed resources by an agreed upon set of standards, benchmarks, and metrics.**

   Governing Body members are responsible for the management of the organization's financial resources. The organization may delegate certain aspects of the financial management to external professionals or professional staff as long as the Governing Body members maintain essential oversight and policy-setting responsibilities.

   Effective members must be capable of critically reviewing and verifying the performance of the investment managers.

   In carrying out their responsibilities, effective members will

   - Ensure that the investment entity managing the financial assets employs qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement, and monitor investment decisions and actions.
   - Ensure that investment managers and consultants retained by the organization adopt and comply with adequate compliance and professional standards.
   - Ensure that the organization has in place proper monitoring and control procedures for investment managers, including the relevant benchmark(s) for each manager.
   - Review investment manager performance assessments relative to the investment strategy on a regular basis, generally quarterly but at least annually. It may be prudent to have a separate external organization periodically review the performance of the investment managers.

Additionally, the Governing Body should provide written summaries to the organization's full management and oversight board of the complete annual assessment of the investment managers. Investment performance summaries should be provided with the same regularity as they are received from the managers.

2. **Review the actions of the investment committee regarding performance in implementing and adherence to the principles of the organization's investment strategy and policies.**

   The Governing Body may or may not directly manage the financial resources of the organization, but their decisions will directly influence how the portfolio is managed. Members should ensure that policies and procedures are being followed with a regular, at least annual, self-assessment of their actions. The review will focus on how well decisions made by the committee adhere to the adopted investment strategy.

   Additionally, the organization should consider an independent review of the Governing Body's decisions. The independent review can occur annually or be randomly scheduled following the delivery of the committee's self-assessment. The review can be completed by another committee of the organization that consists of qualified individuals or by external professionals who report to another board committee.

3. **Review and adjust investment practices and strategies to best meet the organization's objectives and to maximize benefits available from the endowed resources.**

   Governing Body members should review and submit for approval the organization's investment strategy as necessary, but at least annually, to ensure that the policies remain current. The funding needs of the organization may change over time and could affect the organization's investment strategy. Equally, the investment market will experience changes that may affect the strategy's ability to meet the funding objectives. A regular review distributes information among all parties—the Governing Body, Board of Directors, and hired staff or external professionals—for aligning the future strategy with the objectives.

   An important aspect of this review is consideration of any specific requirements or restrictions on investment opportunities stemming from the organization's mission. As investment practices evolve, it may become necessary to enhance or remove specific characteristics of the investment strategy to protect the organization's reputational integrity.

Appendix
Definitions

Beneficiaries. Individuals or entities that receive financial support from an endowment, foundation, or charitable organization.

Donors. Individuals or entities that provide a financial contribution to an endowment, foundation, or charitable organization.

Endowments, Foundations, and Charitable Organizations. Entities whose values and mission promote the well-being of society by providing financial support. Financial support can represent providing for common needs, the advancement of education and research, and other worthy endeavors.

Financial Resources. Financial assets (e.g., security investments and real estate) amassed by an endowment, foundation, or charitable organization for support of its long-term goals.

Governing Body. The group of persons or legal entity responsible for oversight of the financial assets of an endowment, foundation, or charitable organization.

Investment Strategy. The organization's documented investment policies and procedures, sometimes called an investment policy statement. In formulating an investment strategy, the organization should take the following into consideration:

- Investment objectives—(1) return objectives (income, growth in principal, maintenance of purchasing power) and (2) risk tolerance (suitability, stability of values);
- Investment constraints—(1) liquidity needs, (2) expected cash flows (patterns of additions and/or withdrawals), (3) investable funds (assets and liabilities or other commitments), (4) time horizon, (5) tax considerations, (6) regulatory and legal circumstances, (7) preferences, prohibitions, circumstances, and unique needs, and (8) proxy voting responsibilities and guidance; and
- Performance measurement benchmarks, which include risk metrics.

Lifespan. An endowment, foundation, or charitable organization can be formed with a defined end point or date. Others are developed to operate perpetually. The lifespan of the organization may affect how decisions concerning the investment of endowed resources are made.

Mission. The guiding voice for the endowment, foundation, or charitable organization derived from the articulated will/intent of the founding donor(s). Within this document, "mission" will collectively represent "purpose," "vision," or "aim" of the organization.

Stakeholders. Parties involved in the operations of an endowment, foundation, or charitable organization. Stakeholders include individuals and organizations that receive benefits from, contribute time and resources to, or are employed by the organization.

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