Please note: This is a transcription so there may be slight grammatical errors.

Charlie MacBain:

Businesses and nonprofit organizations often have large asset pools like cash or reserves that aren't yet designated for a specific goal or need. Typically, these rainy day funds have grown over time and can represent a significant component of an organization's overall financial structure. When properly managed, they may be a healthy source of capital growth.

Institutional Asset Pools or IAPs are usually managed by an internal investment committee or a third-party investment advisor. Some of these pools are managed conservatively with the goal of capital preservation. In other cases, the portfolio manager will aim to maximize an IAP's earning power, which can serve to backstop an organization's outstanding debt. A few example of IAPs are not-for-profit hospital operating reserves, self-insurance trusts, captive insurance company assets, nuclear decommissioning trusts, or debt financing pools established from the sale of bonds. Depending on the type of organization and the state where it operates, each institution may be subject to different regulations regarding fiduciary responsibilities. But even if the organization is not defined as a fiduciary, companies still have an ethical responsibility to manage assets prudently. Here are a few best practices to follow when considering whether and how to invest in IAP.

First, remember to keep your organization's specific goals and needs in mind. Capital preservation in a highly conservative strategy may be the right choice, or it may be a good idea to explore opportunities for growth. What's important is that leaders and committee members understand both the upside potential and the risks involved in investing in IAP, so that the organization can make informed decisions, the appropriate short and long-term perspectives. Second, consider how quickly your organization might need to deploy the capital. Will it need access to this money in the next month, in the next one to three years or on a much longer time horizon? Understanding the organization's cash flow needs and vulnerabilities will help determine which asset pools may be good candidates for investment. Third, make sure to manage risk over time. Work to understand how the organization may be impacted by changes in IAP values before making any investment decisions. Many organizations seek to maintain certain internal capital or financial ratios.

Others may be required to do so through bond indentures or covenants. Regardless, understanding how IAP investment decisions will impact the organization's financial risk will help its leaders make better decisions. And fourth, take time to document key investment decisions and the reasoning behind them. For organizations that do not have a formal investment policy statement, this is a good time to write one. And for those that do remember to review it at least once a year. These checkups will help ensure that current policy still aligns with the organization's needs and objectives. At times, an investment committee or financial advisor may be managing institutional assets that have liabilities attached.

In this case, organizations should create models that explain the conditions under which it may be appropriate to take risk, and when it is best to remain conservative. By following these practices, organizations that are independently managing their IAPs can deliver on their fiduciary responsibilities, whether legally mandated or not. However, for organizations that want assistance, managing institutional asset pools is an easy add-on to a trusted relationship with an existing financial advisor. Whichever path you choose, organizations that manage their IAPs well are better positioned to not only protect their assets, but also potentially grow them over time. To learn more about institutional asset pools, call CAPTRUST. We're here to help.

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