

Financial Stewardship: Investing Tips for Churches



THE BOARD OF PENSIONS
OF THE PRESBYTERIAN CHURCH (U.S.A.)

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September 26, 2023, 3:15 – 4:30 pm

Investing Your Talents



Does Your Church have Cash Reserves ?

- Special Gifts
- Endowments
- Week-Day School Scholarship Fund
- Worship Fund
- Other ?

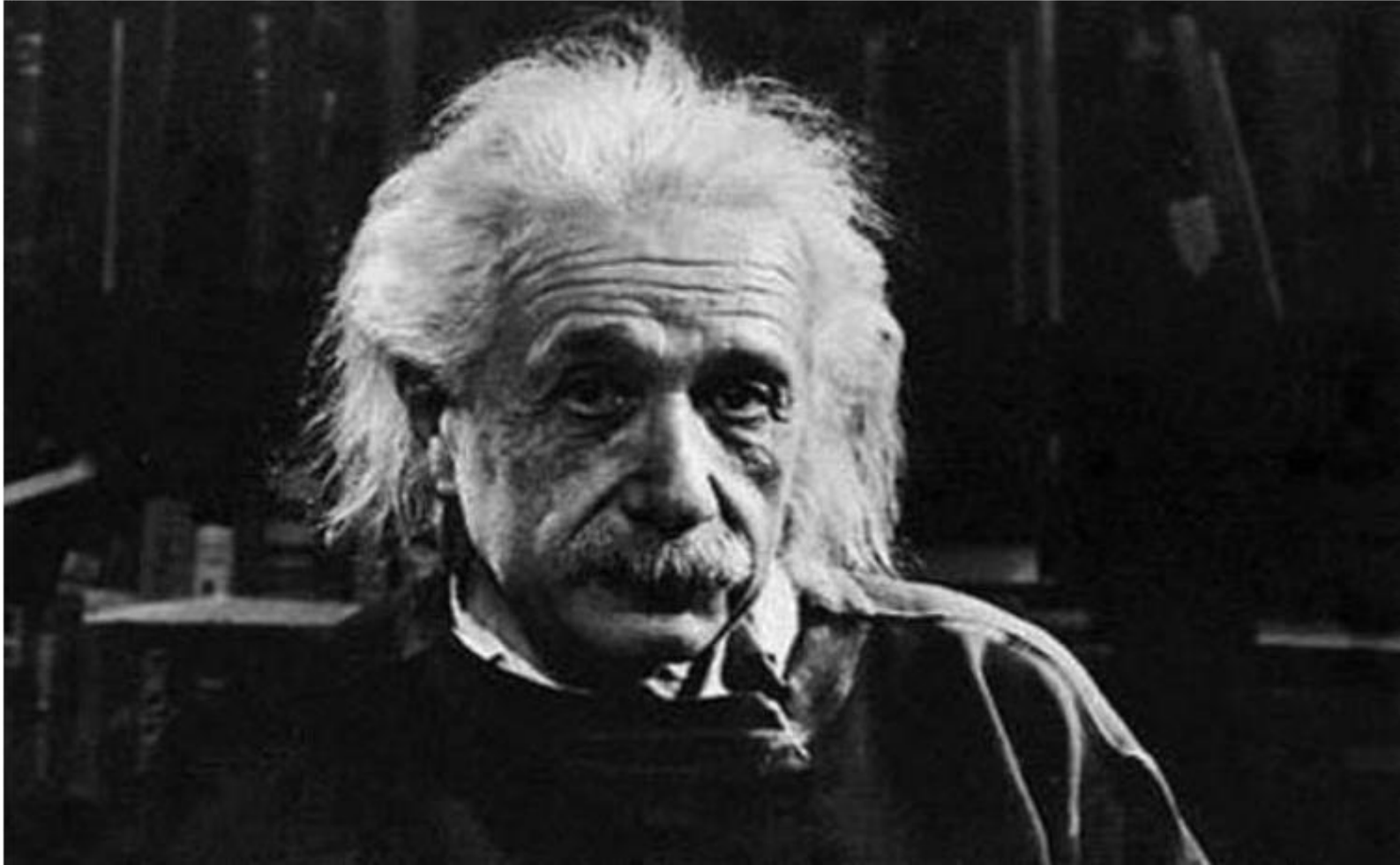


Break-Out Session

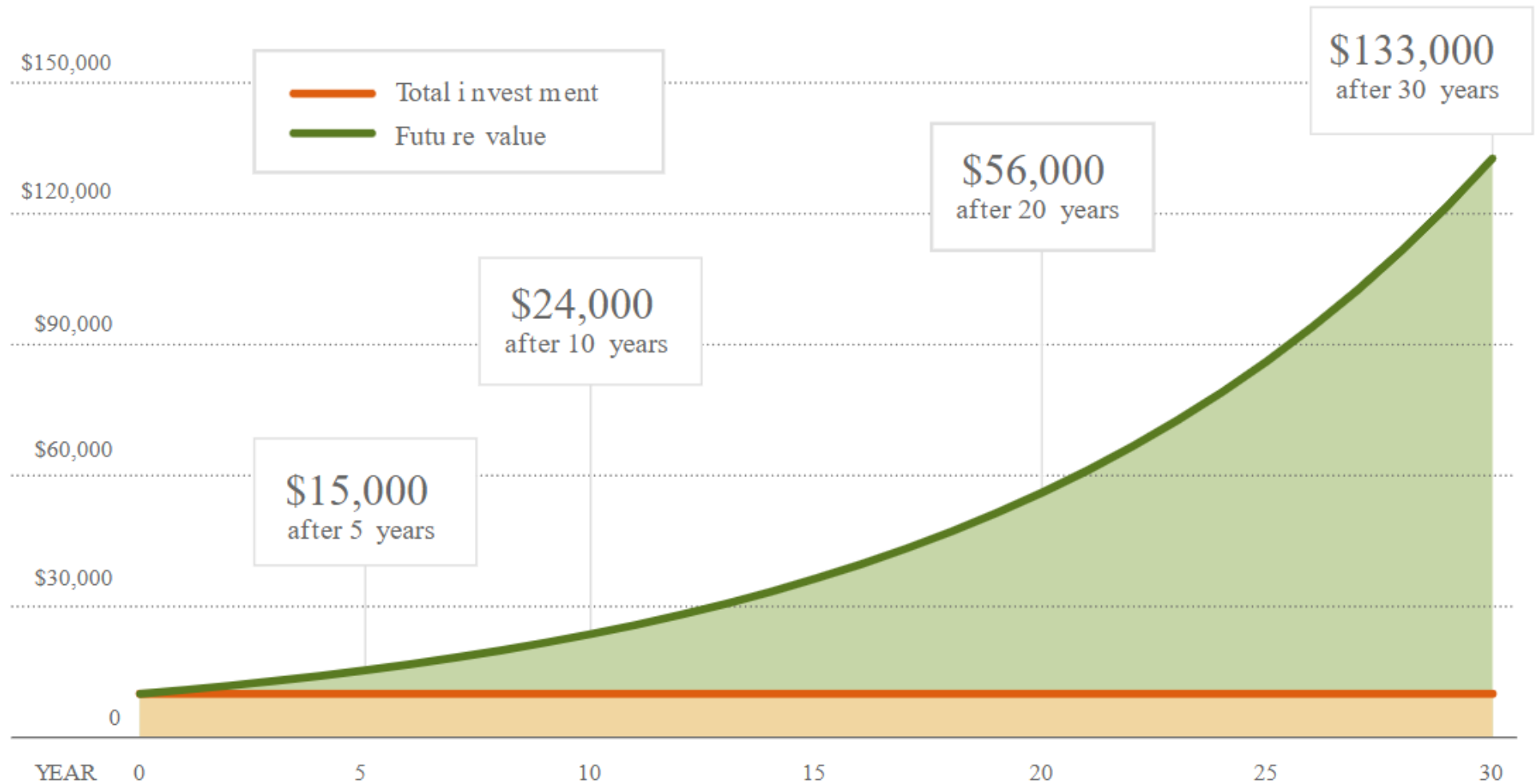
- Table Introductions
- Does your church have cash reserves ? (texting allowed)

The Value of Investing for Churches

Why do we invest?

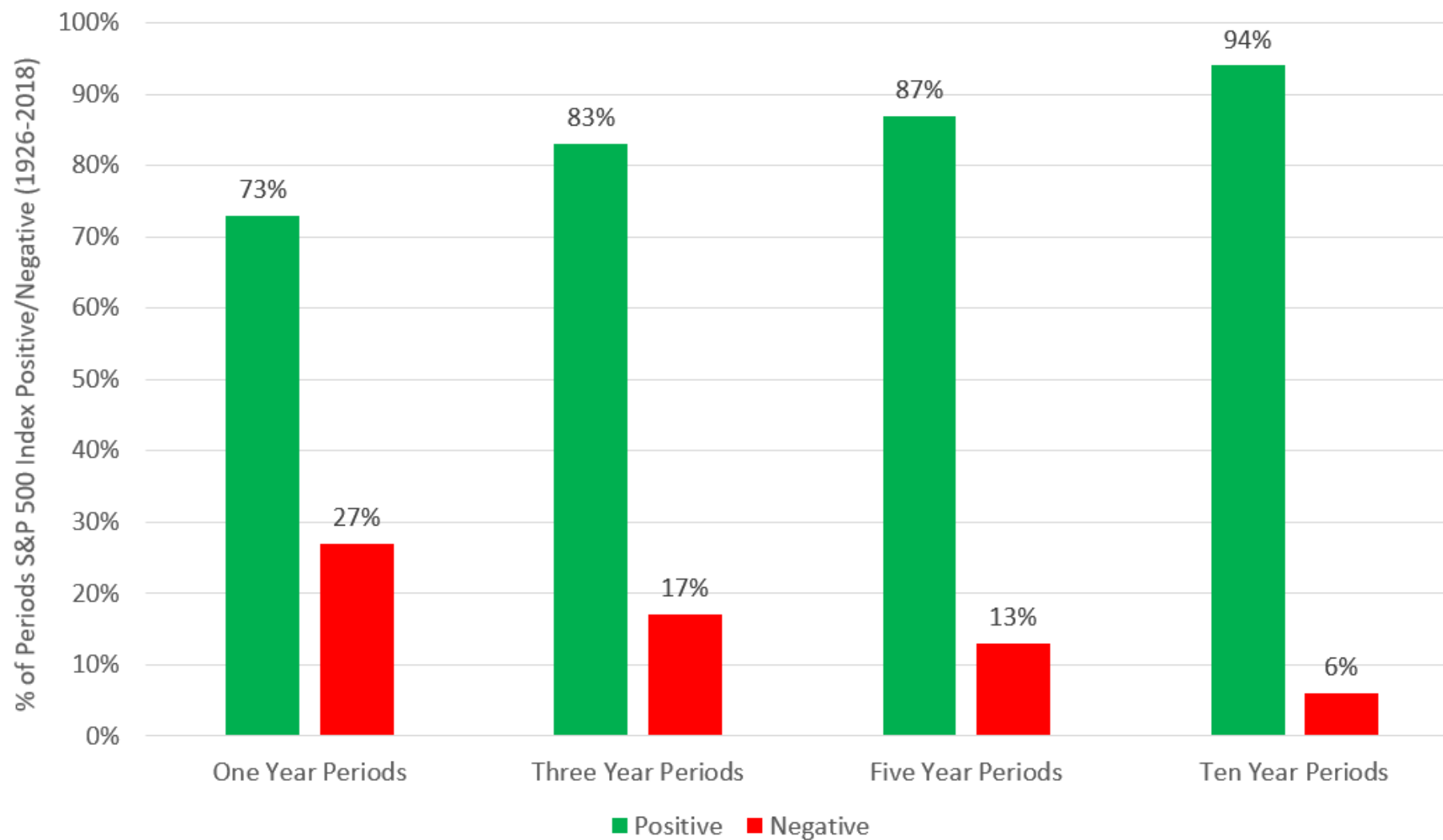


Compounding in Action



Source: Fidelity

Long Time Horizons Matter...



Source: Capital Group

Best Practice – Good Stewards with our Talents

Stewardship –

Consulted with Donor on investment approach

- Higher yielding funds – compound interest
- Combined portfolio, tracked separately
- Documented donor intent, if deceased, relative

Oversight

- Voting and distribution of funds from the accounts

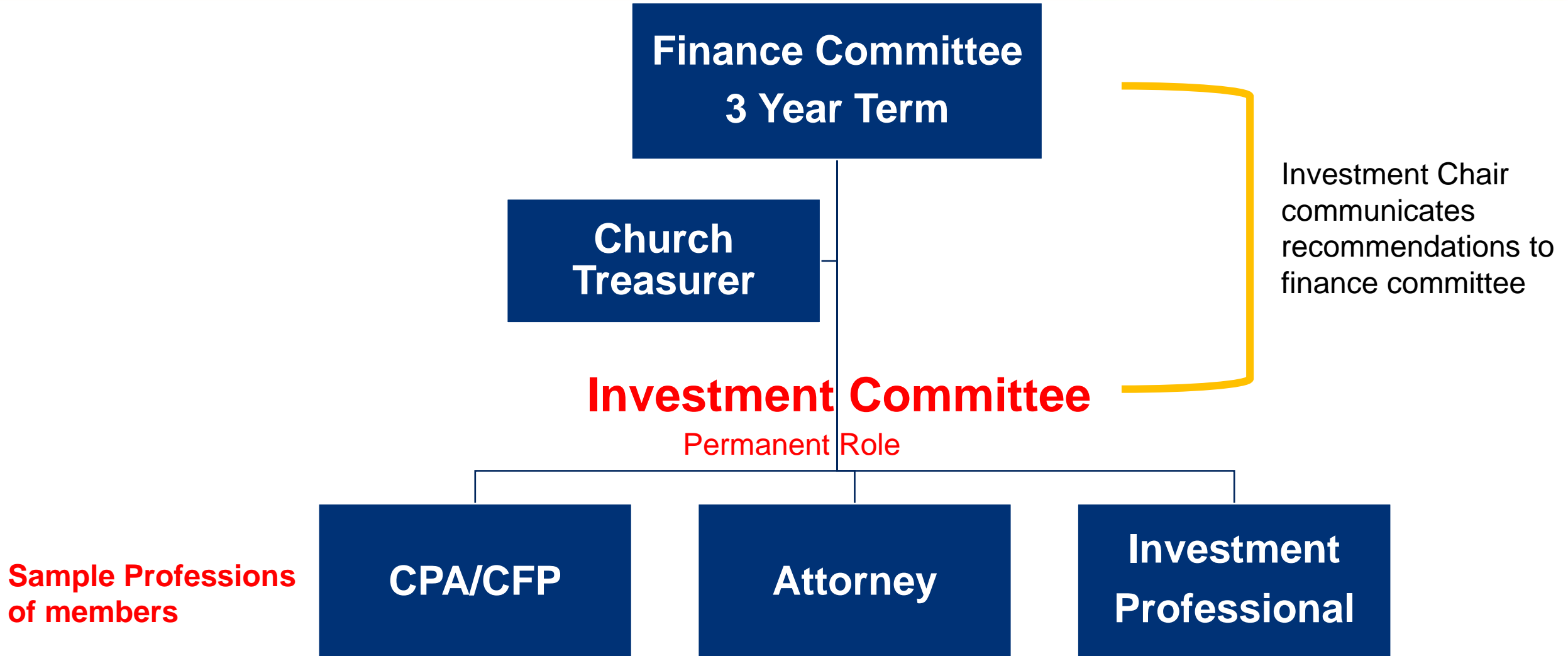
Reporting & Communication

- Sent donors quarterly statement of account
- Thank you note for distribution
- Donor recognition in bulletin, with permission

Transparency

- Quarterly financial dashboard, in narthex

Finance Committee Governance



Break-Out Session

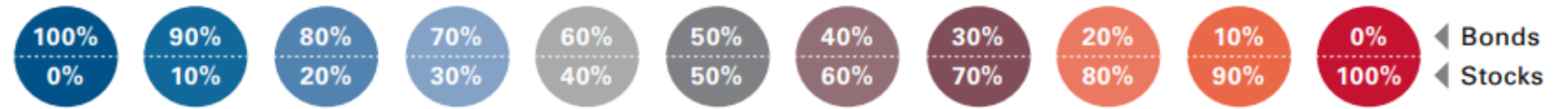
- Discuss how your accounts are (or are not) invested
- Discuss Oversight and Governance

Asset Allocation for Churches



Portfolio Allocations

Portfolio allocation

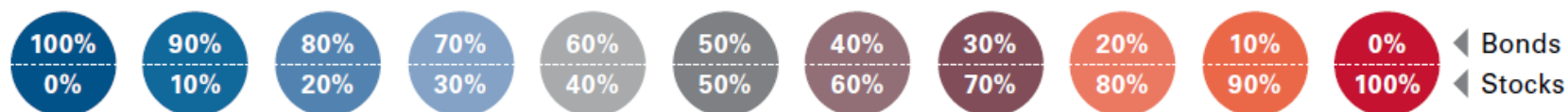


Source: Vanguard

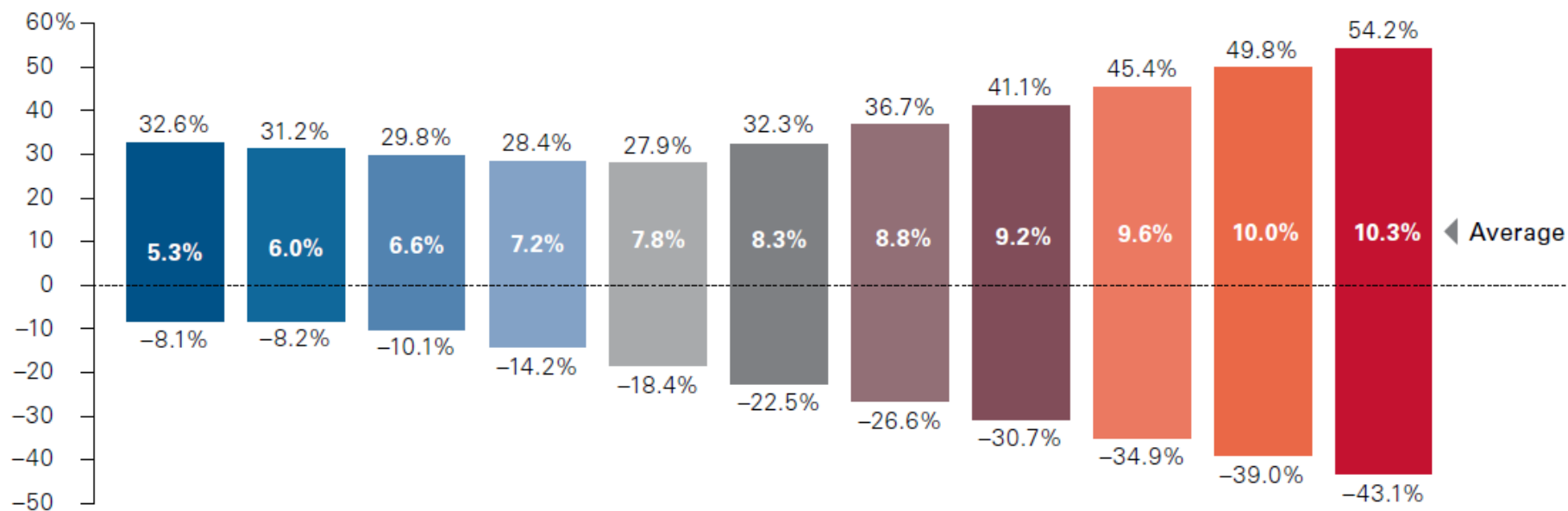
Portfolio Allocations – Return expectations

Best, worst, and average returns for various stock/bond allocations, 1926–2019

Portfolio allocation



Annual returns



Source: Vanguard

Best Practice – Asset Allocation Selection



Financial Institution

- Team of experts/continuity
- Cyber security measures
- Securities donation capability
- Research
- Reporting/ outlook
- Non-profit department

Risk Tolerance

Questionnaire

- Objectives
- Time Horizon
- Available assets
- Income needs
- Volatility tolerance

Vote on each question

Asset Allocation

- Asset Allocation selection
- Exclusion list
- Asset Allocation security review
- Session approval

Risk Tolerance and Time Horizon

Your Risk Tolerance Questionnaire

Investor Questionnaire

This questionnaire is designed to help you choose an appropriate asset allocation strategy for each of your investment goals. Answer these questions with a specific goal in mind—retirement, for example. Because you will likely have a number of investment goals, you should fill out the questionnaire more than once, with a different goal in mind each time. Our Investor Questionnaire is not designed for goals that would require you to spend all of your money for the goal in five years or less. Savings for short-term objectives should be invested in stable investments—primarily cash investments like money market funds.

For each of your investment goals, answer the questions below, then add up your points and record the number at the bottom of page 2. Now match the total points with one of the asset allocations suggested on page 3. Once you have decided on an asset allocation for each goal, you can begin to consider specific mutual funds.

1a. I plan to begin taking withdrawals from this portfolio in...

1b. I plan to spend the money in this portfolio over a period of...

2. When making a long-term investment, I plan to hold the investment for...

3. In October 1987, stocks fell more than 20% in one day. If I owned an investment that fell by 20% over a short period, I would... (If you owned stocks in October 1987, select the answer that corresponds to your actual behavior)

4. Generally, I prefer investments with little or no fluctuation in value, and I am willing to accept the lower returns associated with these investments.

5. When the market goes down, I tend to sell some of my stock assets and put the money in safer assets.

6. I would invest in a mutual fund based solely on a fund manager's record with a fund, company, or relative.

7. During the first half of 1981, some bond investments fell more than 10%. If I owned an investment that fell by 10% over a short period of time, I would... (If you owned bond funds during the first half of 1981, select the answer that corresponds to your actual behavior)



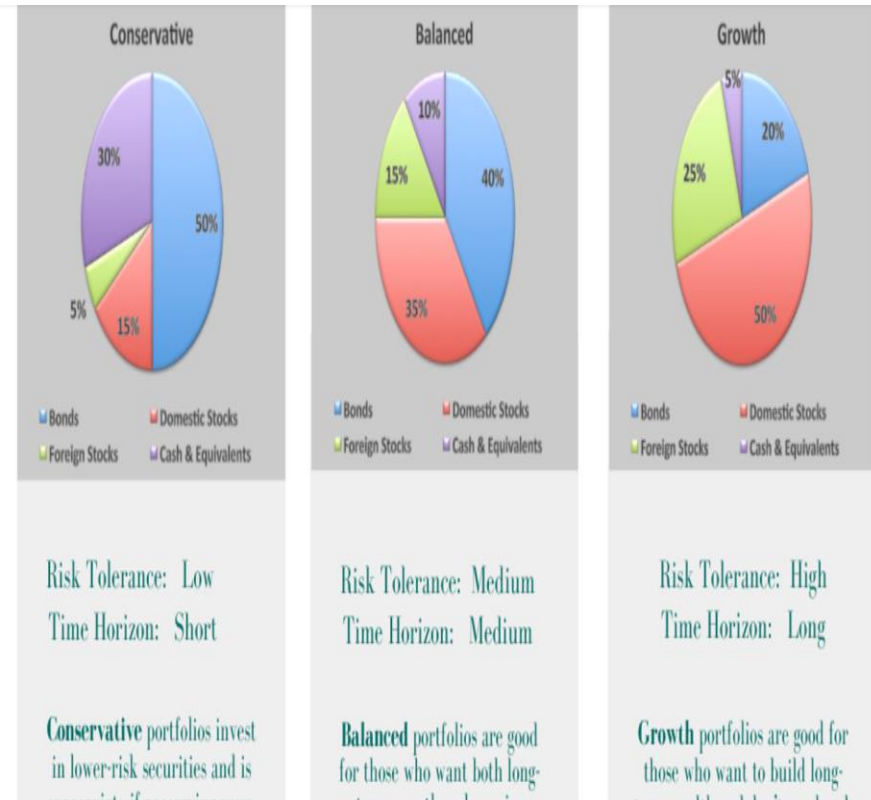
RISK Tolerance Score

TIME Horizon Score →

	0-2	3-5	6-7	8-10	11+
0-19	Income	Income	Income	Income	Income
20-39	Income	Income	Income	Income	Income
40-59	Income	Income	Balanced	Balanced	Balanced
60-79	Income	Income	Balanced	Growth	Growth
80-100	Income	Income	Balanced	Growth	Growth



Informs Your Asset Allocation



Break-Out Session

- Discuss financial institution, and selection criteria
- Share experiences with risk tolerance and asset allocation

Staying the Course during Market Downturns

The Emotional (Market-induced) Rollercoaster

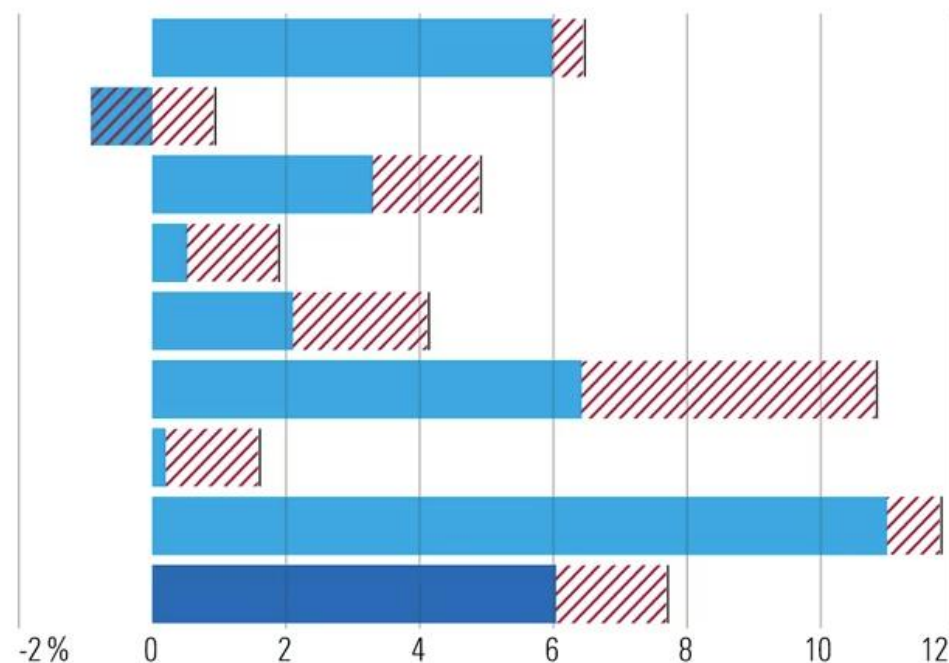


Can Investors Time the Market?

The Gap by U.S. Category Group (10-year Annual Returns)

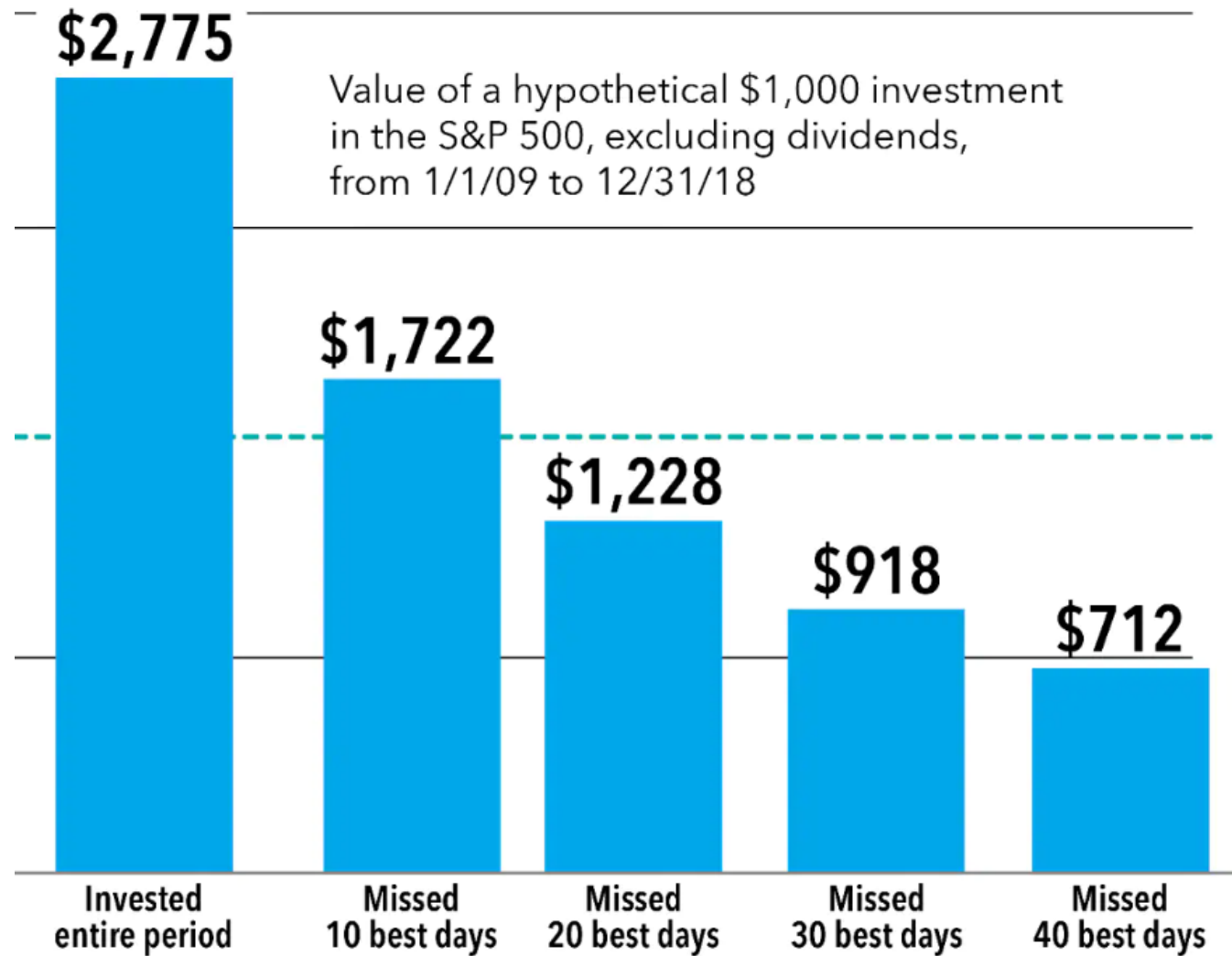
The average dollar underperformed the average fund by about 1.7% per year

U.S. Category Group	Investor Return %	Total Return %	Gap
Allocation	5.98	6.44	-0.46
Alternative	-0.92	0.96	-1.88
International Equity	3.30	4.89	-1.59
Municipal Bond	0.52	1.89	-1.37
Nontraditional Equity	2.10	4.16	-2.06
Sector Equity	6.42	10.80	-4.38
Taxable Bond	0.20	1.57	-1.36
U.S. Equity	10.99	11.77	-0.79
Overall	6.04	7.71	-1.68



Source: Morningstar

The Impact of Market Timing

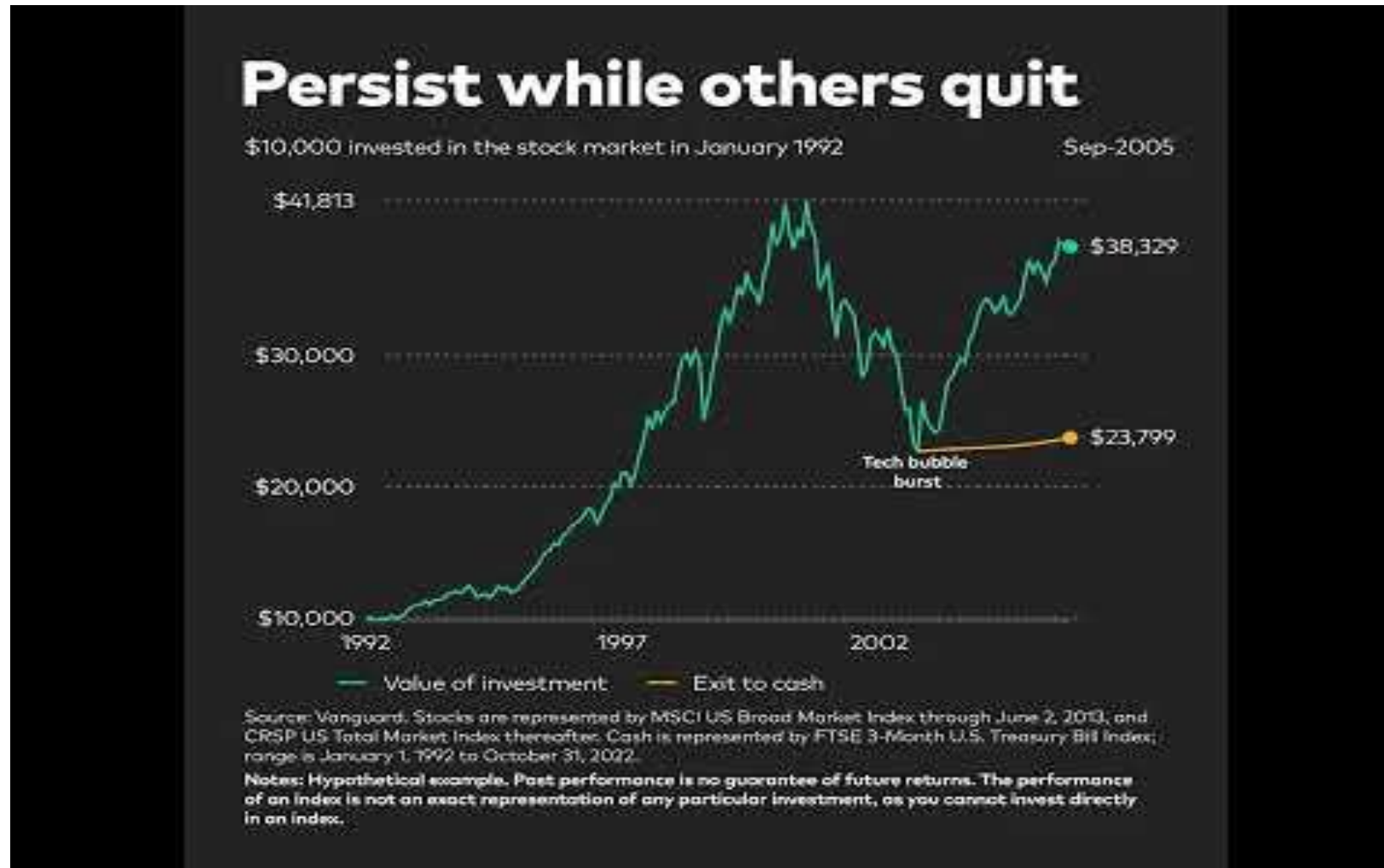


The Power of Staying Invested

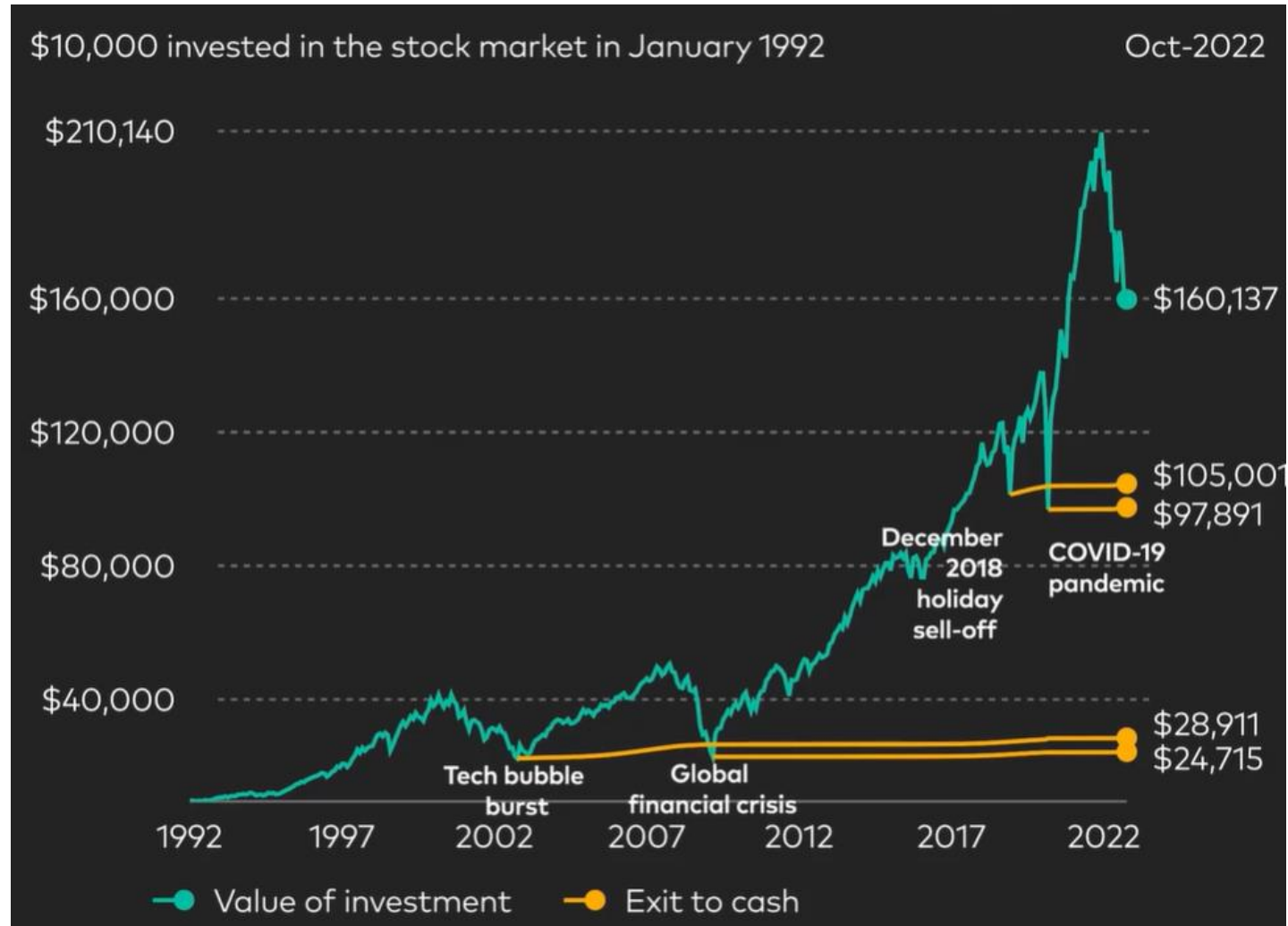


Source: Vanguard

The Power of Staying Invested



The Power of Staying Invested



Source: Vanguard

Best Practices – Steadfast Investing

Investment Policy Statement (IPS)

- Determine collective investment goals and objectives
- Investment Alignment – Session and portfolios
- Session oversight continuity
- Guidelines for general estate bequests
- Defines how the financial advisor should execute
- Helps Session stay the course during market uncertainties



The Value of an Investment Policy Statement (IPS)

Investment Policy Statement

Name:

Date:

WHY I HAVE AN INVESTMENT POLICY STATEMENT:

The Investment Policy Statement (IPS) is the cornerstone of the investment management process:

- It translates my financial planning goals and objectives into relevant investment goals and objectives.
- It states a commitment to the investment process and enhances my understanding of the investment objectives.
- It provides a basis of reference that keeps me focused on long-term objectives. This basis is especially valuable during periods of market volatility when there may be a temptation to react to short-term factors and emotions.
- It establishes the criteria against which performance is measured.

ASSUMPTIONS:

List all investment accounts for which this Investment Policy Statement (IPS) will apply. Do not enter multiple investment accounts under one IPS or also list (or link) different IPS's for different accounts. For example, if you are deciding when to start saving for college, your IPS would state more aggressively, knowing you have a very long time horizon before you need the money. Or you might invest college funds differently than your personal investments.

INVESTMENT OBJECTIVES:

What is the life-cycle you are seeking? Is the money being set aside for retirement? College funding? Downpayment for a home? Contingency/emergency reserves? Documenting and documenting your thoughts connects you with the investment management process and provides a measure of satisfaction when determining to address your financial objectives.

ESSENTIAL OBJECTIVES:

Is your primary objective growth, income or capital preservation? Documenting about your investment objectives sets some of the direction for investment strategy.

Purpose

1. Document Investment goals and objectives
2. Detail strategies to meet the objectives

What it should include

Objectives and Investment Philosophy:

- Investment goals
- Time horizon
- Asset allocation
- Liquidity and income needs
- Investment type

The Guidance you want from the Financial Advisor:

- Responsibilities of the Advisor
- Guidelines and restrictions on asset allocation selection
- Expectations on monitoring / rebalancing
- Requirements for meetings / reports

Break-Out Session

- Policies in place for gifts, endowments, bequests

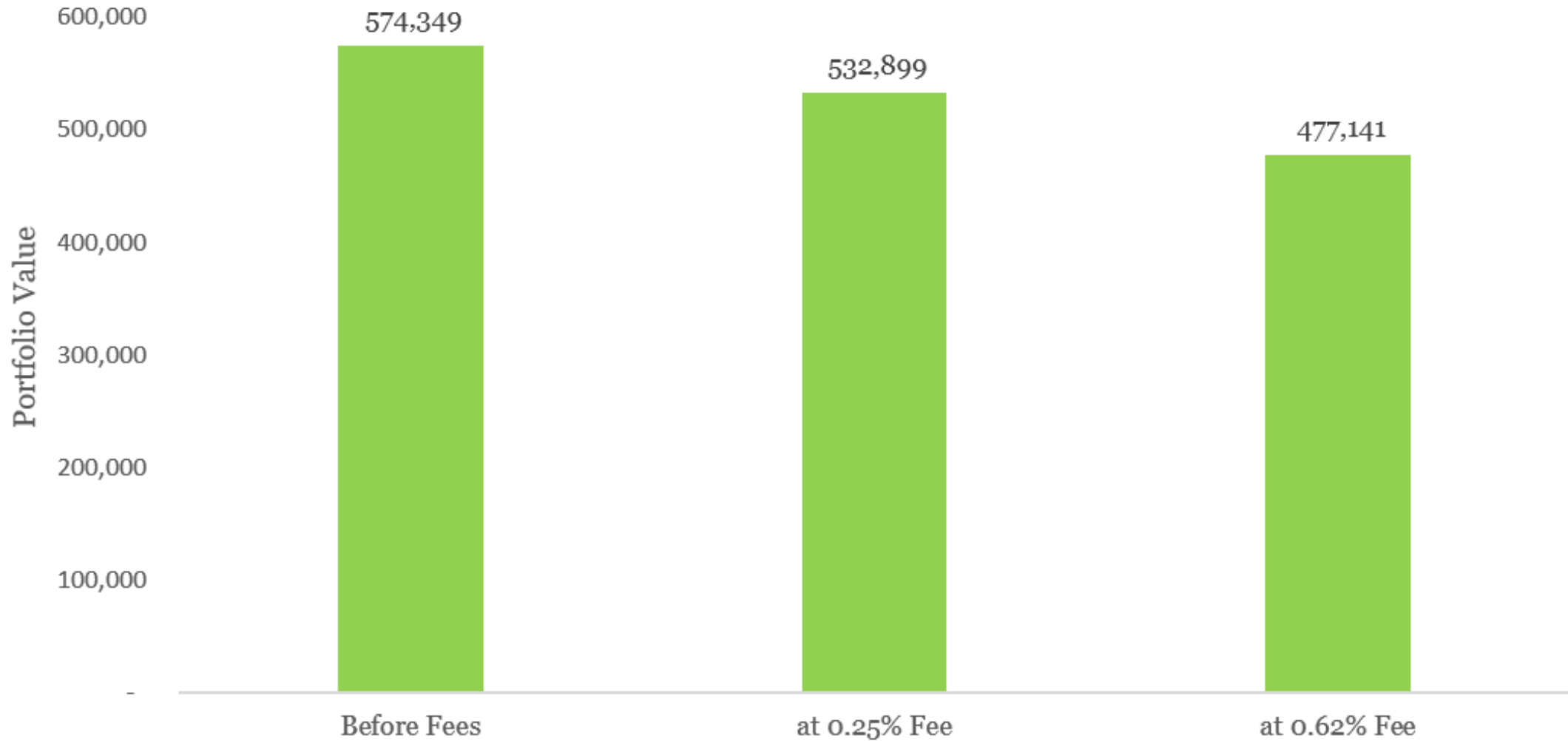
Cost Considerations



The Spectrum of Fees

- Advisory fees / Percentage of portfolio (AUM)
 - Account based
- Investment management fees (expense ratio)
 - Product (fund) based
- Brokerage commissions/ donating appreciated securities
 - Transaction based

The Impact of Investment Cost



Source: Vanguard. Assumes a starting balance of \$100,000 and an annual return of 6% reinvested over 30 years.

Resources



Sample Investment Policy Statement:

www.churchpublishing.org

Guiding principles for investors:

<https://corporate.vanguard.com/>

***After navigating to the above address,
search for: "Vanguard's Principles
for Investing Success"***

www.pensions.org

Benefits Connect

E-learning:

Let's Talk Investments e-learning course

Recorded Webinar:

Investing with Your Values webinar

Question and Answer Session