

Association Investment

Policies, Practices,
And Performance

A study of investment reserve governance and management

Benchmarking research from the ASAE Foundation
Analysis by ORION Investment Advisors

Report Summary



Overview

Today's associations face a critical set of financial challenges. As revenue models evolve, and nondues revenue sources increase in importance, more and more associations are recognizing the important role that healthy and well-managed investment reserves play in the long-term fiscal strength of the organization. *Association Investment Policies, Practices, and Performance*, based on data collected by the ASAE Foundation from more than 500 professional and trade associations, was designed to help associations evaluate their own investment strategies, performance, and governance structures relative to those of similar organizations.

In working with ORION Investment Advisors, an independent, investment advisory firm

committed to the association community, the ASAE Foundation has gathered and analyzed data that is believed will be a valuable resource for association staff and volunteer leadership—and, ultimately, the standard bearer for association investment benchmarking and an important tool in identifying best-practices for the governance and management of these important resources.

This report summary highlights some of the major findings from each section of the study. The full report, which can be found on the ASAE online bookstore (asaecenter.org/bookstore), includes additional findings as well as valuable insights from ORION Investment Advisors.

2013 financial market overview summary

- ▶ 2013 was a boon for equity investors, as global equity markets produced high double-digit gains.
- ▶ The spread between U.S. equity returns and other segments of the capital markets (such as international equities, alternative investments, and fixed income) was significant, impacting investors with broadly diversified asset allocation strategies.
- ▶ The equity markets tended to favor stocks of lower-quality companies, making it a challenging environment for active managers and strategies focused on higher-quality names.
- ▶ The bond markets were a struggle; not only did low short-term rates provide investors with minimal yields on their short term deposits, but rising intermediate and long-term rates resulted in depreciating bond prices.

(Data sources for market index returns: Morningstar and Informa Investment Solutions)

Governance summary

Investment policies

- ▶ More than 90 percent of respondents maintain a written investment policy, and nearly half of respondents review their policy annually.
- ▶ Associations with an investment policy report greater satisfaction with investment reserve performance.

Oversight and advice

- ▶ A majority of respondents delegate reserves oversight to a finance or investment committee. Smaller associations were most likely to assign oversight to staff.
- ▶ Three quarters of respondents use an outside investment advisor for

management of reserve assets. The type of advisor varied quite a bit by reserve size.

- ▶ More than 70 percent of respondents formally review long-term reserve investments either quarterly or annually.

Operations

- ▶ Half of respondents draw from investment reserves for various reasons. Associations with larger reserves are the most likely to regularly draw from reserves to supplement operations.
- ▶ Roughly half of those associations with either a foundation or endowment draw from those funds to supplement operations or for other reasons.

Investments summary

Strategy

- ▶ A majority of respondents maintained a specific long-term target asset allocation strategy for their investment reserves.
- ▶ Almost 9 out of 10 respondents engage in portfolio rebalancing, most frequently based upon a recommendation by an investment advisor or manager.
- ▶ While passive investing was more common among those with larger reserves, associations with smaller reserves that elected to index tended to do so for a far greater percentage (and in many cases, all) of their reserve assets.
- ▶ Less than a quarter of respondents engage in any type of socially responsible investing, such as using socially

responsible investment vehicles or prohibiting investment managers from holding securities in specific stocks.

Investment vehicles and asset allocations

- ▶ The use of mutual funds and separately managed accounts was prevalent across all organizations. Private placements were rare.
- ▶ As reserves grew, so did the use of equities. Conversely, those with small reserves have primarily cash allocations.
- ▶ For the trailing one, three, and five years ended December 31, 2013, associations with larger reserve balances outperformed organizations with smaller reserves.

Concluding thoughts

- ▶ Associations with larger investment reserves share a set common characteristics, relative to smaller associations; they are more likely to
 - ▶ Regularly draw on their investment reserves
 - ▶ Have a diversified investment strategy that is managed to a long term strategic target
 - ▶ Achieve higher investment returns
 - ▶ Engage in actively managed investment strategies
 - ▶ Leverage the resources of a finance committee or dedicated Investment committee or subcommittee.
- ▶ Most associations maintain a written investment policy, and those that do not are less likely to be satisfied with the overall performance of their investment reserves.
- ▶ Most associations engage an outside investment advisor to assist in the management of investment reserves; those that do not are less likely to be satisfied with the overall performance of their investment reserves.