

The 10 Essential Elements of Investing

Essential Element 10 Build outside



Beaver Investing

The investment guide for Canadian foundations and charities
Third edition

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In this investment guide, we have explored investing in three phases: the Discern phase (discerning whether and why to invest), the Invest phase (planning the investment program) and the Govern & Lead phase (owning the investment plan and building leadership capacity for long-term success).

Discern	Invest	Govern & Lead
1) Start with why	2) Set the mix	8) Own the plan
	3) Diversify	9) Build inside
	4) Simplify	10) Build outside
	5) Balance risk	
	6) Control cost	
	7) Use time	

In Essential Element 8: Own the plan, we saw the importance of building and owning the investment plan (including governance, investment and spending policies), while in Essential Element 9: Build inside, we looked at using the plan to communicate the approach to investing within the organization, especially to build knowledge when adding new investment or executive team members. If the previous paper was about organizations building their own capacity, then this final paper in The 10 Essential Elements of Investing is about building the capacity of others who are investing for the public good, particularly smaller organizations.

Formal capacity-building is a structured effort to develop the capacity of others to succeed. The gold standard in this area is the Innoweave program of the J.W. McConnell Family Foundation, which through a series of 10 learning modules has supported over 450 organizations across Canada to undertake social innovation projects (for further details on this initiative, please see www.innoweave.ca). Although formal programs like this contribute greatly to the capacity of foundations and non-profits, informal ways of building capacity can also be effective, such as mentorship, peer exchange and workshops.

Mentorship

In mentorship, an organization that is more experienced in investing (the teacher) works with an organization that is less experienced in investing (the learner). Typically, the teacher will have an investment plan in place and has become familiar with the challenges and opportunities of implementing it over a period of several years. Quite often, the learner will not have an investment plan at all; or have a plan but not really follow it; or have experienced significant transition at committee or management level, with a resulting loss of organizational knowledge and continuity. In these situations, the teacher works with the learner over a period of several months to help them identify, think through and develop an investment plan. For best results, the teacher will provide the learner with a clear roadmap, such as The 10 Essential Elements of Investing. A hallmark of this mentoring relationship is the mutual benefit to both organizations: the learner receives advice and guidance from a trusted peer and walks away with a clear investment plan, while the teacher learns how much they know about their own approach to investing through the process of explaining it to others. After doing this, the teacher will often identify gaps in their process, which were filled by tacit knowledge or the ability of just one or two people. By addressing these gaps, the teacher will build a stronger and more sustainable investment process that stands the test of time.

Peer exchange

In peer exchange, two similar organizations observe or share current practices in each other's investment process. This could take the form of investment committee members from two organizations inviting each other to attend the other's investment committee meetings. Usually, this would be done by giving observer status (not voting rights) to the guest member. By observing another organization in action, committee members can develop insights into how to structure meetings effectively, how to manage group dynamics and how to address investment questions such as asset mix and risk tolerance. Perhaps even more than this, they will be encouraged by the realization that they are not alone, that all organizations wrestle with similar challenges and that they have a peer to consult when they face these situations in their own organizations.

Workshops

In workshops, participants learn actively from each other. They can be part of a conference but foundations can also organize them on their own initiative and open them up to peers. The leadership element of a workshop consists of taking a theme of common interest (e.g. how to run an investment committee meeting) and have a few organizations teach others how they have done this. Once again, the learners will come away with insights from their peers, while the teachers will see what they truly know and what they need to develop further through the process of teaching others.

Advancement

In addition to the initiatives outlined above, there are always opportunities for collective action that advance the investment and strategic capacity of the charitable sector. Some initiatives, such as the tax treatment of securities gifts to charities, depend on policy or legislative change, while others, such as the role of the charitable sector in impact investing and shareholder activism, depend on the personal leadership of a few people. These initiatives do not always demand a lot of time but are almost always "above and beyond", creating a disproportionate impact in how leaders are remembered long after they have retired. Wise leaders often have an eye not just to improving the system of today but to shaping the system of tomorrow.

Conclusion

We encourage the leaders of foundations and charities, especially of larger organizations, to commit to outside capacity-building in their personal development plans, including activities such as mentorship, peer exchange and workshops. We suggest that outside capacity-building could represent at least 10% of a leader's personal development plan – a highly strategic form of tithing.

We have presented this investment guide, *The 10 Essential Elements of Investing*, in three phases: Discern, Invest and Govern & Lead. We recognize that while charitable leaders will see the importance of all three phases, some will consider their work to be done when they have governed the investment plan (Essential Element 8: Own the plan) and developed leadership

capacity within their organizations (Essential Element 9: Build inside). We freely admit that organizations can reach greatness with Essential Elements 1-9 alone. This final part of the series is not about reaching greatness; it is about sustaining greatness. As leaders share their approach to investing as part of their strategy, they learn what they truly know, they develop a culture of excellence in their own organizations and they inspire the next generation of leaders to make a difference for Canada.