CHURCH BIZ PUBLICATIONS™

Investment Guide for Churches

Churches attempt to be good stewards of the resources that God has provided them to advance His Kingdom. As churches seek to best steward funds, the following are some factors to consider:

- **Risk and Return:** Risk can span from assets that are considered near risk-free such as government backed assets to very volatile types of assets. The more risk that a church takes with funds, the more return is expected. Churches can have different objectives for funds that often dictate what type of risk they are willing to have.
  - Two Examples:
    - Reserves: Church reserve funds typically have an extremely minimal risk level because those funds are needed for periodic cash-flow needs, unknown future expenses (example: air conditioning/heating unit repair or replacement), and emergency needs.
    - Endowments: Some churches have long-term endowment funds (only the income is spendable) that are often invested in stocks, bonds, and alternative investments (example: gold fund), for greater return and risk because they can withstand a reasonable level of risk because of their long-term orientation. As an additional note, these types of assets may be held directly or indirectly through a mutual fund or exchange-traded fund. With endowments, greater return (with associated greater risk) is needed for required income payouts as well as the necessity to keep up with inflation over the years.
- **Liquidity:** For funds with different objectives, a church needs to evaluate how liquid funds need to be from an accessibility standpoint. Liquidity is the timeframe that funds are available to the church if needed.
  - Two Examples:
    - Reserves: As an example, a daily liquidity fund such as a savings-type account is available daily while a term investment (based upon a specific holding period such as 90-days, 1-year or whatever time period) is only available typically with a penalty.
    - Endowments: Accounts invested in assets such as publicly-held stocks and bonds can typically be sold and the funds received within a few days. Some alternative investments also have liquidity within a few days, but these assets can also have much more stringent liquidity restrictions.
- **Biblical Screening:** Churches often consider biblical screening very critical. They do not want to invest in companies that primarily provide goods and services that are against their beliefs and biblical values. Investments can be screened upholding a church's biblical convictions.

- **Holding Period:** For a shorter term holding period objective, a daily liquidity fund with market fluctuation risk would be appropriate. For a longer term holding period objective such as an endowment that is hypothetically invested in stocks, bonds and alternative investments, a church would need to have a holding period of at least three years with a preference for five years. If invested for a longer holding period and there is a future date when the principal and earnings will be used (not an endowment), the funds should be transferred to a shorter term fund without market volatility at some point to be ready for the targeted withdrawal date. If the objective is an endowment (perpetual account), then the funds will likely be invested in stocks, bonds and alternatives on a continual basis with a perpetual holding period.
- **Diversification:** Diversification is crucial to "not have all of your eggs in one basket", such as one direct asset. There are some daily liquidity funds that automatically provide needed diversification. Concerning long-term funds invested in stocks, bonds and alternatives, a healthy allocation needs to be determined for these various types of investments. There are also some funds available that automatically have an appropriate long-term allocation.
- **Performance:** For shorter term funds without market volatility such as a daily liquidity fund, performance is often evaluated based upon the current payout rate or yield. For longer-term funds, evaluating a five-year plus performance (pricing gains/losses and income) is often evaluated against an appropriate market benchmark but a church also needs to consider the risk of those underlying benchmarks. As an example, if the performance of funds are taking less risk than a benchmark, then less return is expected.
- **Spending Plan:** This section relates to long-term funds, specifically endowments. The income from a spending plan is distributed every year (at least annually) to the church for its designated purpose based upon a formula with a stated rate such as 4.00%. The difference in the return of the fund and the spending plan distributed income stays invested in the endowment that helps the account to grow and keep up with inflation.
- **Trusted Advisor:** A church needs to decide on a trusted advisor/investment management organization for the investable funds of the church. That trusted advisor may be a denominational-based foundation in the state where the church resides. To prevent a conflict of interest, churches usually do not select a church member (or a family member of a church member) to be the trusted advisor/investment management organization.
- **Periodic Reviews:** A church needs one individual (example: church business administrator), a team/committee (example: Church Finance Team), or another appropriate party to periodically review performance statements of the underlying funds and have any needed contact with the trusted advisor/investment management organization. This individual or team also needs to continuously evaluate if any church objectives and/or factors have changed that need to be addressed as well as overseeing the use of the income to ensure that any endowment restrictions are followed.

Dr. Jeffrey Steed, MBA
Executive Director
Louisiana Baptist Foundation

LOUISIANA BAPTIST FOUNDATION

Contact the Foundation for more information on investments and other services.

877.523.4636 contact@lbfinfo.org