Investment Portfolios 101

The Philanthropic Initiative
Act boldly. Give wisely.

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Agenda

- Brief Introductions
- Introduction to Portfolios
- Knowing What You Want from Your Money
- Choosing the Right Mix
  - Introducing the asset classes
- Ongoing Portfolio Management
- *Appendix*
  - *Putting it All Together: The IPS*
  - *Selecting & Monitoring Investments*
  - *More Information on Diversification*

Today's Speakers

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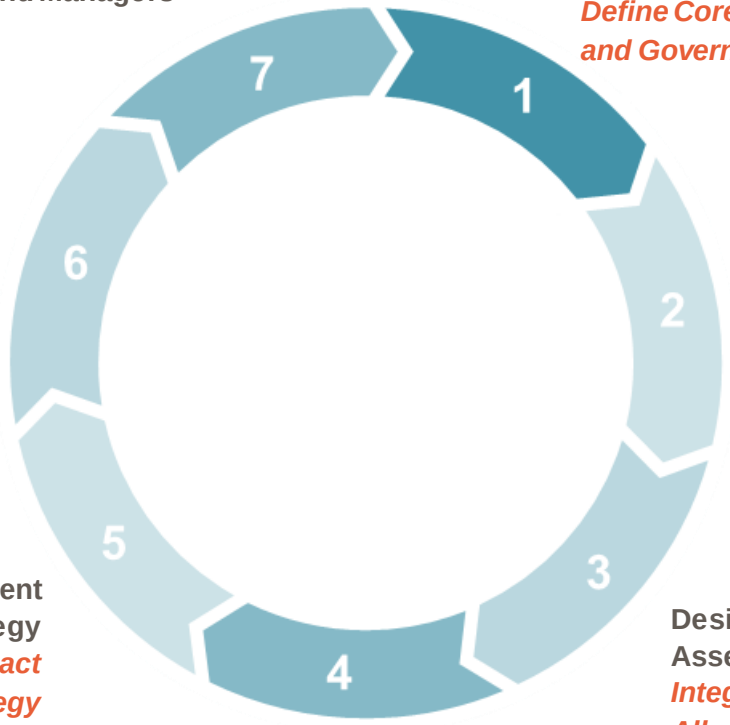
Introduction to Portfolio Management

Managing an investment portfolio is an ongoing process, summarized below. We use the same fundamental approach when integrating impact.



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2. **Develop Investment Policy Statement**
   Incorporate Impact Goals and Role of Investment Capital
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   Integrate Impact Allocation
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7. **Consider Changes in Objectives, Strategy and Managers**

Traditional Process
Integrated Impact

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Knowing What You Want from Your Money

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It Starts With You

Your investment objectives should capture what you want your portfolio to do for you, your attitudes toward investing, and your time horizon.

- What is the purpose of your money?
- What do you want it to do?
- How much time do you have until you need this money?
- How much risk are you willing to take to achieve above-average returns?
- Do you want your money to grow or do you want to preserve its current value?

Common Investment Objectives

Once you know your investment objective, it will help you in determining the right mix of investments. Some basic examples are below:

Income	Growth and Income	Growth	Capital Preservation
Seek a maximum amount of income given their risk tolerance and are willing to forgo capital appreciation and growth of income in order to seek a higher level of current income.	Seek current income but also seek income and capital growth over time. These investors are willing to forgo a portion of current income in order to provide for potential future growth.	Do not seek account income; their primary objective is capital appreciation.	Seek to preserve capital and prevent loss in a portfolio

https://www.wellsfargoadvisors.com/disclosures/guide-to-investing/investment-risk-tolerance.htm

Integrating Impact Objectives

You can also identify your impact objectives at this stage. What social and or environmental change do you want to see? Some examples might include:

- **Access to Basic Needs & Services:** Providing the means to achieve long-term well-being including food, water, shelter, clothing, energy, and financial services.
- **Justice & Equality:** Supporting fair and equitable access to economic, political, and social rights and opportunities.
- **Renewability & Sustainability:** Developing and utilizing resources that are naturally replenished over time and in a manner that serves the needs of the present without compromising those of future generations.
- **And others!**

Investment Objective Example

INVESTMENT OBJECTIVE:

Family seeks long-term principal preservation and capital growth. Long-term is defined as greater than a ten-year horizon.

Family has a total of $X in investable assets. Family expects to draw approximately $X a year to support current living expenses. In the near-term, Family expects to draw more from portfolio to fund renovation-related expenses for new home, estimated at an additional $X through 2021.

Adequate cash balance is one of Family's primary considerations, not only for living expenses, but also gifts to family members and charitable donations.

IMPACT INVESTING SUMMARY:

The Family's theory of change, focuses on transforming businesses into agents of positive change for all stakeholders, including workers. Notably, they want to address civil rights and inequality through investments in non-extractive business models that share value amongst all stakeholders.

IMPACT INVESTING OBJECTIVES:

- Access to Basic Needs & Services
- Better Business Practices
- Diversity & Empowerment
- Justice & Equality
- Livelihoods & Opportunity
- Values-Aligned Screening

Choosing the Right Mix

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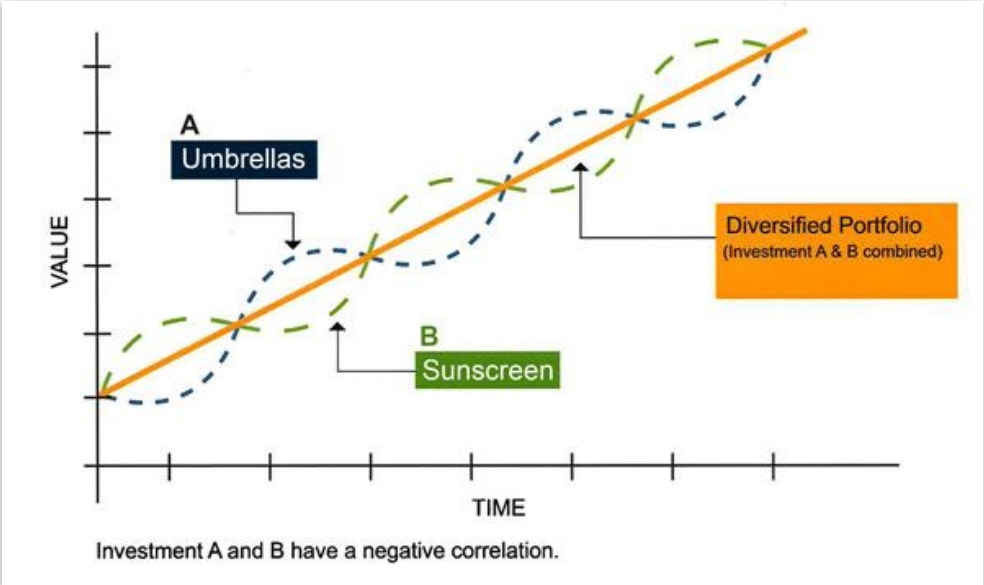
Introducing Asset Classes

Invest for Better Curriculum Categories	Invest for Better Asset Categories	Typical Risk Profile	Role in Portfolio
Cash & Cash Equivalents (including CDFIs)	Cash & Cash Equivalents	Low to no volatility	More immediate cash needs.
Public Markets	Public Fixed Income	Low volatility	Medium-term cash needs. Income generation. Diversification from equity risk.
	Public Equities	Moderate to high volatility	Capital appreciation
Private Equity, Debt Funds and Angel Investing	Private Equities	Moderate to high volatility	Long-term capital appreciation
	Private Debt	Low to moderate volatility	Income generation. Capital appreciation
	Angel Investing	High volatility	Long-term capital appreciation
Real Assets	Real Assets	Moderate to high volatility	Diversifier and hedge against unanticipated inflation

Diversification: How it Works

Uncorrelated Assets, A Simplified Example: By owning a portfolio specifically designed to take advantage of asset categories with dissimilar price movements, an investor can minimize volatility while continuing to pursue positive returns.

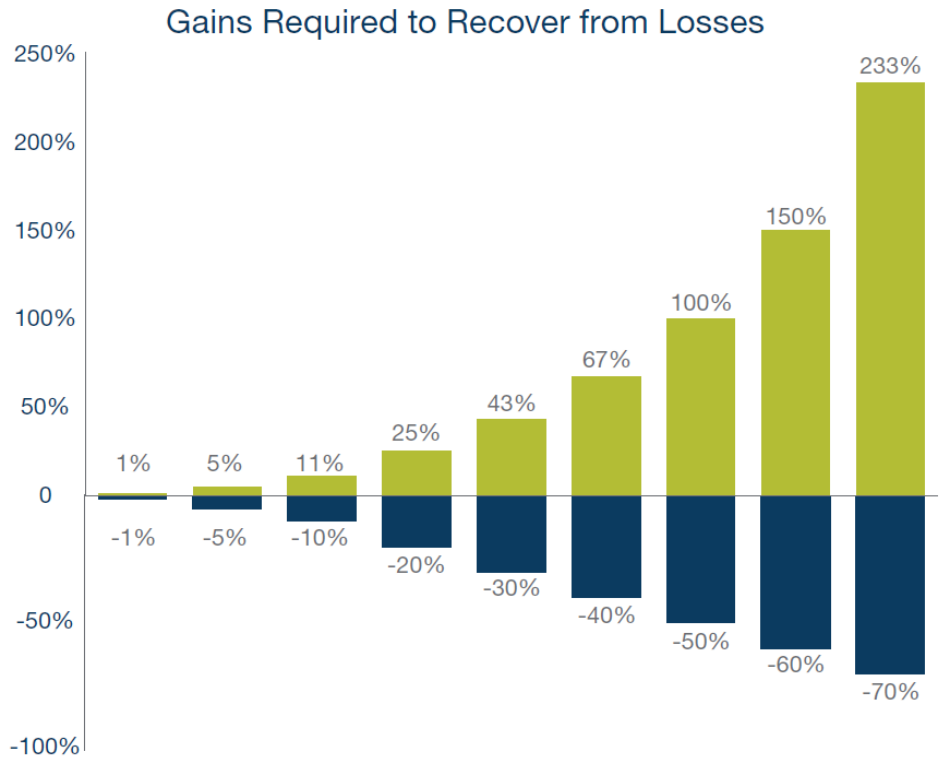


What's that?

- **Assets:** Something with economic value that you own and expect to provide a future benefit. In this presentation, we typically mean investments.
- **Asset Class**: Asset classes are groups of investments that exhibit similar characteristics and are subject to similar regulations.

https://evidencebasedinvestingllc.com/diversification/

The Importance of Diversification



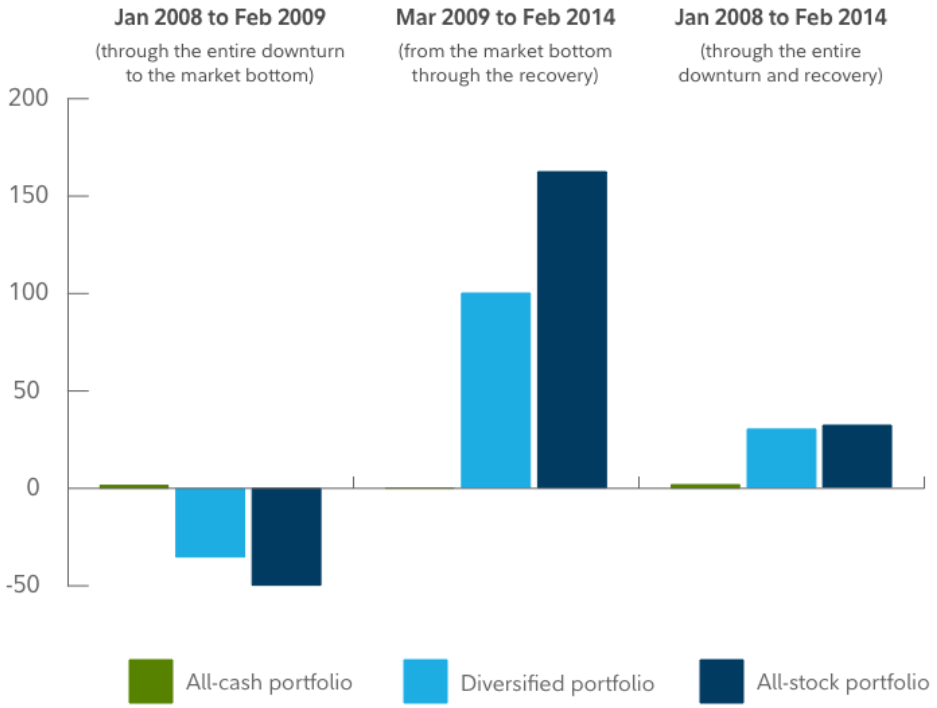
The math of gains and losses is favorable to the notion of preserving capital rather than taking large risks to chase returns, a 50% loss requires a 100% gain to recover!

https://myfederalretirementhelp.com/2018/09/18/could-your-tsp-portfolio-withstand-a-bear-market/

The Importance of Diversification

Diversification aims to maximize returns by investing in different areas that would each react differently to the same event.

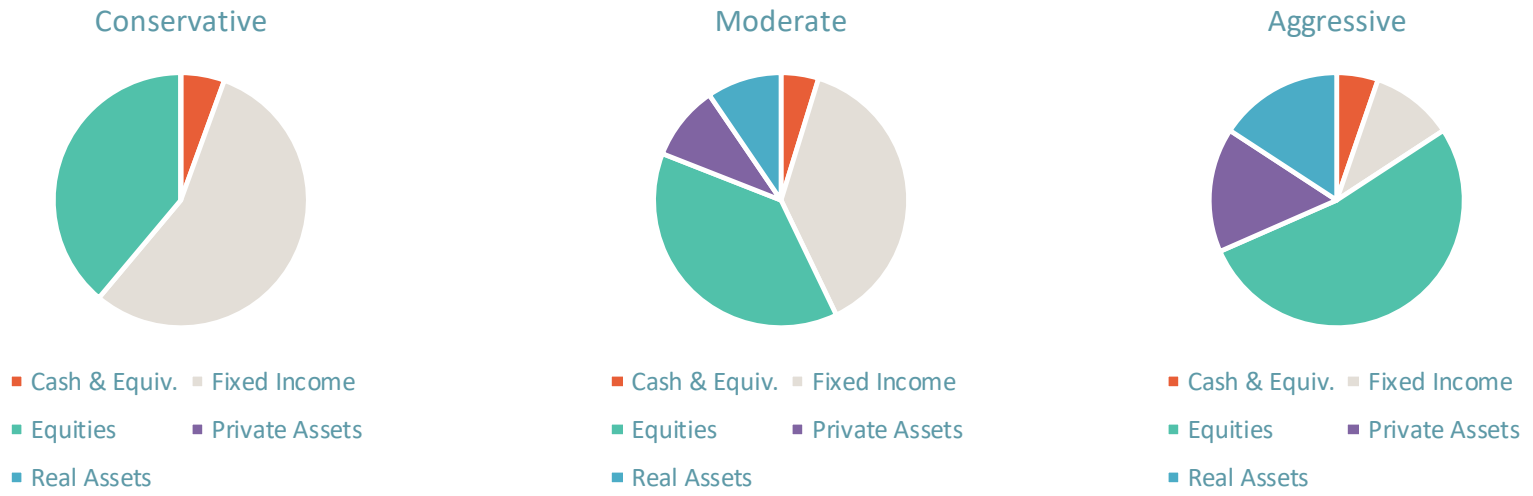
Most investment professionals agree that, although it does not guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimizing risk.



https://www.fidelity.com/viewpoints/investing-ideas/guide-to-diversification
https://www.investopedia.com/investing/importance-diversification/

Samples of Diversified Portfolios

Consider the investment objective outlined in the first section, what type of portfolio would be most appropriate to meet your needs and also minimize risk?



While there are many standard asset allocations, depending on the size and complexity of your assets you may benefit from a custom allocation.

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Choosing the Right Asset Allocation for You

- Your ideal asset allocation is the mix of investments, from most aggressive to safest, that will earn the total return over time that you need.
- The percentage of your portfolio you devote to each depends on your investment objective, time frame and your tolerance for risk.
- This isn't a one-time decision. Revisit your choices from time to time to see if it is still meeting your needs and goals.

How much do you plan to invest?	What is your investment timeframe?	What is your tolerance for risk?	What investment opportunities are available to you?	Can you afford illiquidity?

Please see appendix for additional resources to help you choose an appropriate allocation.

https://www.fidelity.com/viewpoints/investing-ideas/guide-to-diversification
https://www.investopedia.com/investing/importance-diversification/

Asset Allocation Example

Sally puts $10,000 into a 529 investment account to support her 2-year-old granddaughter's future college expenses.

The portfolio diversification starts with a higher allocation to riskier equities initially when there is a long timeframe to invest, but adjusts to hold more conservative assets over time as her daughter nears college age to better ensure the value is maintained.

Photo by Jane Carmona on Unsplash

Integrating Impact Across Asset Classes

Impact options are available across most asset classes, and will be implemented when you choose the investments that comprise your asset classes. Note impact investing is an approach, not an asset class.

	CASH & CASH EQUIVALENTS	FIXED INCOME	PUBLIC EQUITIES	PRIVATE EQUITY & VENTURE CAPITAL	REAL ESTATE	REAL ASSETS & INFRASTRUCTURE
Responsible Excl.	• Bank with ethical banks (no investments in sin stocks or fossil fuels)	• Avoid bonds issued by companies involved with tobacco, firearms, fossil fuels, etc.	• Avoid companies involved with tobacco, firearms, fossil fuels, etc.	• Avoid companies involved with tobacco, firearms, fossil fuels, etc.	• Avoid gentrification/ extractive strategies	• Avoid non-renewable commodities
ESG Integration		• Buy bonds of best-in-class ESG issuers	• Invest in best-in-class ESG companies • Active engagement on ESG issues			
Thematic	• Bank with sustainable and/or community banks (investing in low income and marginalized communities or sustainable businesses)	• Green bonds • Affordable housing • Microfinance • Other essential public services – e.g., hospitals, schools	• Tilts toward companies generating revenues from beneficial products/services	• Wide range of environmental and communities-based themes	• Affordable housing • Green buildings • Community infrastructure	• Environmental infrastructure (e.g., renewable energy, water) • Sustainable agriculture • Land and water conservation

Barriers to Diversification

With the importance of diversification, why might people not have a diversified portfolio?

- **Taxes:** Diversifying often involves selling appreciated positions and paying capital gains taxes.
- **Emotional Reasons:** Portfolio holdings may be inherited from a relative or originate from a family business. Investors may become attached to portfolio holdings that have generated strong returns over many years.
- **Behavioral / Psychological Biases:**
  - *The Endowment Effect:* The documented tendency for people to ascribe more value to things merely because they own them.
  - *The Status Quo Effect:* The general aversion to change and the association of change with risk.
- **The Expectation of Alpha:** An investor may have a high level of conviction about a small number of securities and choose to own a concentrated portfolio of these securities.

https://myfederalretirementhelp.com/2018/09/18/could-your-tsp-portfolio-withstand-a-bear-market/

Ongoing Portfolio Management

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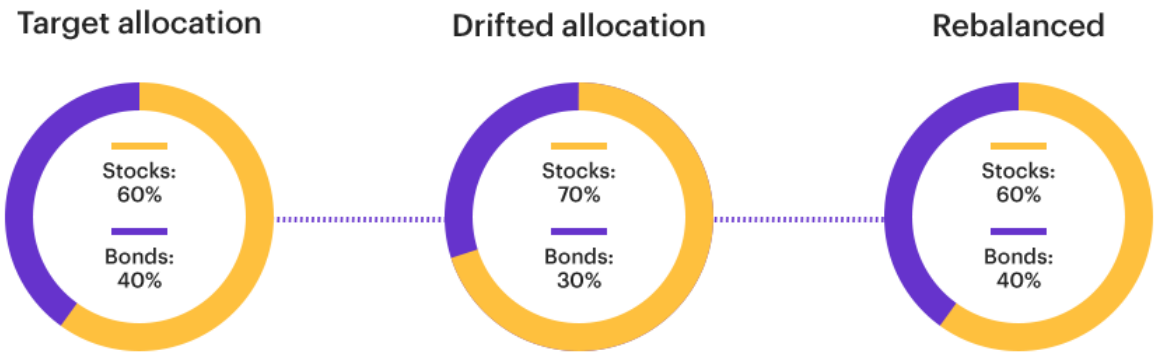
Stay the Course with Rebalancing

- Over time, changes in the market will likely cause your portfolio to drift away from the asset allocation you want. This may make the portfolio riskier or, conversely, more conservative with lower potential gains.
- By rebalancing, you can bring your portfolio back into alignment with your risk tolerance and overall investing strategy.

You can choose to rebalance using a consistent schedule (calendar-based), or when the portfolio drifts beyond certain pre-determined limits (trigger-based).



https://us.etrade.com/knowledge/library/getting-started/what-is-portfolio-rebalancing

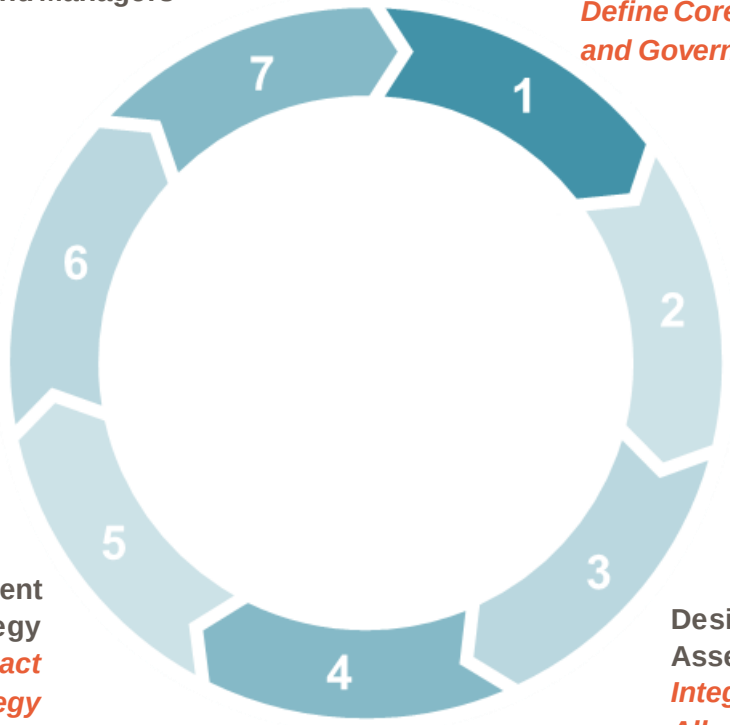
Re-assessing the Mix

You may also need to change your investment strategy and asset allocation if there is a change in your risk tolerance, financial situation, or the financial goal itself.

Examples include retirement, major wealth transitions, etc. Don’t forget to update your IPS with any changes!

Photo by BBH Singapore on Unsplash

We Welcome Your Questions



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Appendix

Additional Resources

Setting Your Impact Priorities

- Impact Reporting and Investment Standards (IRIS)

Surveys to Help Pick an Asset Allocation

- Index Fund Advisors Risk Capacity Survey
- Vanguard Investor Questionnaire
- TIAA Asset Allocation Evaluator

Roboadvisors to Help Manage Your Portfolio

- Ellevest
- WealthSimple
- OpenInvest
- Sustainfolio

Investment Data/Tools

Free

- Impact Assets
- Fossil Free Funds
- Deforestation Free Funds
- Weapons Free Funds
- *Check with your custodian/where you currently invest*

Subscription Fee

- FI 360
- Morningstar Advisor Workstation
- eVestment
- GIIRS Ratings / B Analytics
- SASB Navigator
- Sustainalytics
- MSCI ESG Integration

Putting it All Together: The IPS

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A Guide To Your Portfolio

- Now that you have thought about your goals, chosen an appropriate investment objective and determined an asset allocation that is right for your needs – write it down!
- An investment policy statement (IPS) will help guide you in future decisions that you make for your portfolio.
- We recommend revisiting your IPS once per year, and updating if you have any major life changes or evolving needs to be met.

A sample investment policy statement is linked here: https://www.investopedia.com/articles/investing/060515/example-investment-policy-statement.asp

Selecting & Monitoring Investments

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Selecting Types of Investments

There are many types of investments to choose from, including passively managed funds like ETFs and mutual funds, as well as more sophisticated actively managed options.

Invest for Better Curriculum Categories	Cash & Cash Equivalents (including CDFIs)	Public Markets		Private Equity, Debt Funds and Angel Investing			Real Assets
Invest for Better Asset Categories	**Cash & Cash Equivalents**	**Public Fixed Income**	**Public Equities**	**Private Equities**	**Private Debt**	**Angel Investing**	**Real Assets**
Examples of Types of Investments	• Cash • Treasury bills • Money market funds • CDFIs	• Government bonds • Corporate bonds • Municipal bonds • International bonds • Bond ETFs and mutual funds	• Large-, mid- and small-company stocks • U.S. stocks • International stocks • Equity ETFs and mutual funds	• Leveraged buyouts • Distressed capital • Secondaries	• Direct lending • Distressed debt	• Early-stage companies	• Real estate • Infrastructure • Commodities • Natural resources

Evaluating Investments

You can use many criteria to evaluate investment managers, not just performance.

Organization	Strategy	Performance	Operations	Impact
• Experience and reputation • Alignment of interests • Disciplined growth • Ownership • Longevity • Cohesion • Succession planning • Compliance aptitude	• Fundamental research • Competitive advantages • Repeatable process • Buy/sell discipline • Risk management focus • Sector limits • Position limits • Environmental, social & governance considerations	• "Alpha" generation • Risk adjusted performance relative to benchmark/ peers • Up market/ down market capture • After-tax, after-fee returns • Luck vs. skill	• Audited financials • Verification of assets • Compliance procedures • Reporting/ disclosure • Review of auditors • Review of fund legal documents • Operations controls • Legal counsel • Proxy voting guidelines	• Impact thesis and strategy • Target beneficiary population • Commitment to impact integration in investment decisions • Monitoring and reporting process • Track record

There are also out of the box portfolio management options with impact options:

- **Ellevest**
- **WealthSimple**
- **OpenInvest**
- **Sustainfolio**

More Information on Diversification

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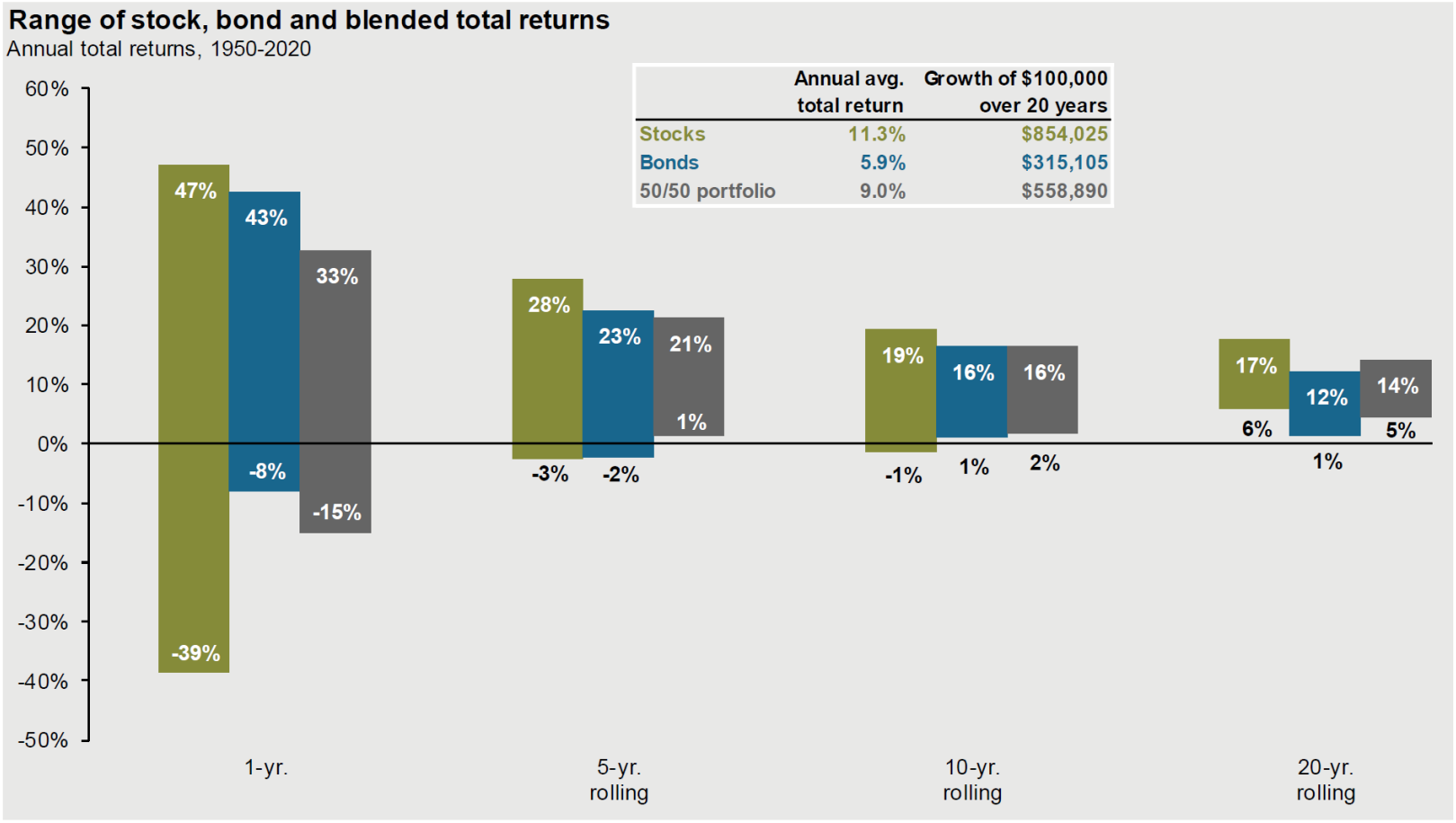
Time, Diversification, and the Volatility of Returns



Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2019. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2020.
Guide to the Markets – U.S. Data are as of December 31, 2020.

Source: JP Morgan Guide to the Markets, Data as of 12/31/20.

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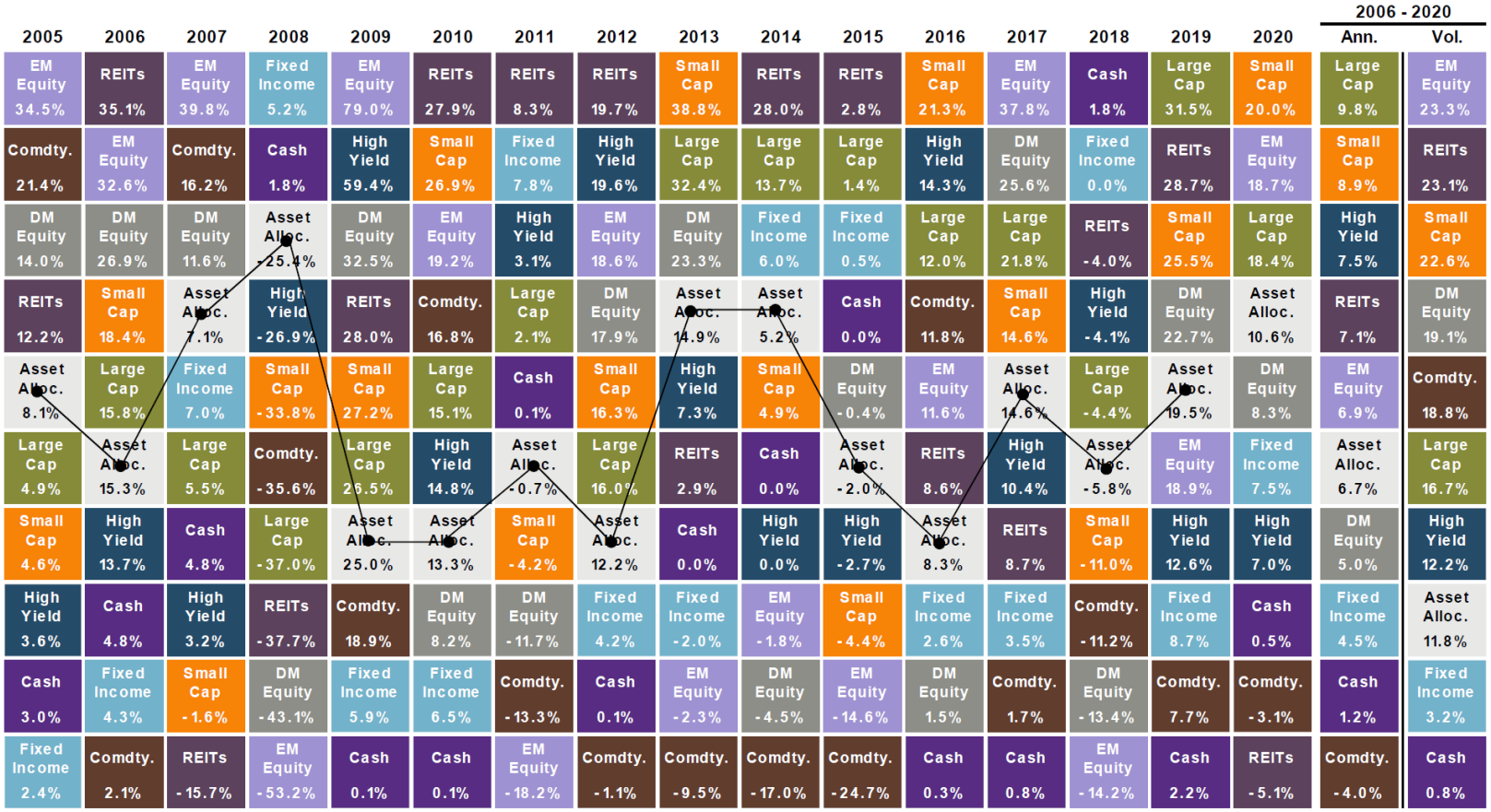
Asset Class Returns



2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2006 - 2020 Ann.	2006 - 2020 Vol.
EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	Large Cap 9.8%	EM Equity 23.3%
Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Small Cap 8.9%	REITs 23.1%
DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	High Yield 7.5%	Small Cap 22.6%
REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	REITs 7.1%	DM Equity 19.1%
Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	EM Equity 6.9%	Comdty. 18.8%
Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	Asset Alloc. 6.7%	Large Cap 16.7%
Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	DM Equity 5.0%	High Yield 12.2%
High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Fixed Income 4.5%	Asset Alloc. 11.8%
Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Cash 1.2%	Fixed Income 3.2%
Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	Comdty. -4.0%	Cash 0.8%

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/05 to 12/31/20. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of December 31, 2020.

Source: JP Morgan Guide to the Markets, Data as of 12/31/20.

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