Endowment funds have the opportunity to make a difference in how charities fulfill their missions.

The oversight of a charity's investments can involve considerable fiduciary risk. How charities manage and mitigate this risk is probably the more important aspect of the investment management process.

The term "fiduciary" is a bit of a mouthful but the concept of fiduciary is a straightforward one.

What is a Fiduciary?

Fiduciary is a legal term. It typically refers to a person who has a responsibility to act for another's benefit. While there are many different types of fiduciaries, one of the primary fiduciary responsibilities is a director of a charity or non-profit organization.

A director is a person who participants in the oversight and guidance of an organization by virtue of being part of its governing body – the Board of Directors. Each director is part of the collective body which governs the organization and provides it with strategic direction. In most provinces, a charity or non-[profit organization must have three directors (sometimes called governors, trustees or administrators)

Fiduciary Duties

Directors who act in a fiduciary capacity have the responsibility for the organization and for the fulfillment of its mission. Directors must understand the fundamentals of the organization that they govern – its mission, legal structure, stakeholders and risks. All directors should be aware of the wide arrange of fiduciary duties that they are required to fulfill.

Managing risk

Managing organizational risk is a key aspect of fiduciary duty. Reducing exposure to liability is an important aspect of any director. Through the development and implementation of good policies and processes, Boards of Directors can reduce risk exposure to an acceptable level.

Effective risk management starts with sound decision making and strong governance. Committees and the boards they serve must have clear accountability and a strong understanding of the context in which their decisions must be made. Yet many volunteers are unaware of the significant duties that are imposed on them and the resultant liability that accompanies these duties. It is critical that all directors must have a profound understanding of their unique role.

Fiduciary Duty and the Investment Management Process

Every organization has different types and sizes of investments. Monitoring and controlling its investments, not matter how large or small, is a critical part of the fiduciary process.

Directors of a charity are typically subject to fiduciary obligations with regard to charitable property. Directors who breach their fiduciary duties may be liable for any loss that the organization suffers as a result.

With respect to an organization's investments, a director has a responsibility to fulfill a fiduciary duty to the organization, typically reflected in the organization's constating documents or the governing provincial legislation. Some legislation, like Ontario's *Trustee Act,* clearly sets out the terms under which a charity's assets should be invested. Directors must be familiar with applicable legislation, appropriate common law standards and the charity's operating documents in order to ensure they are fulfilling their obligation to manage the charity's investment with the appropriate degree of oversight, prudence and attention.