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The Australian Centre for Philanthropy
and Nonprofit Studies

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Charity Law, Nonprofit Standard Chart of Accounts & Book Review

Presenters

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Music Intro (Didjeridoo music by Matthew De Boer)

INTRODUCTION

Gavin Nicholson: Welcome to our last Podcast for 2007. This issue will look at two recent cases on charities and tax, one here in Australia and one from the High Court in Canada. We also chat with Morri Young who has been working hard rolling out training in New South Wales to implement the QUT Standard Chart of Accounts and there is a book review by CPNS Alumni Charlie Heerey on University Endowments.

Music link (Didjeridoo music by Matthew De Boer)

Gavin Nicholson:

First up, today's podcast examines the issues of *Commissioner of Taxation and Word Investments Ltd* decision from the Full Court of the Federal Court. This judgment deals with some of the most difficult areas of tax and charity law concerning how one determines whether an organisation is charitable or not when commercial enterprises for fundraising are involved. It was an ATO funded test case. Podcast 5 on 10 November last year looked at the decision which was appealed.

Anne Robinson of Prolegis and a great supporter of CPNS has agreed to prepare a case note on the appeal decision for us. The ATO must decide by 12 December 2007 whether to appeal the decision to the High Court and the betting at present is firmly leaning towards such an appeal.

STORY 1: Word Investment Full Court Decision

Anne Robinson:

Hi my name is Anne Robinson from the Prolegis Lawyers in Sydney and I have been asked to do a case note on the recent decision of the forfeit in the Commissioner of taxation and word investment limited, which was brought down on 14th November 2007.

The two key issues that come out of this decision are:

1. Can a charitable institution pursue its charitable purposes indirectly: by undertaking commercial activities and directing profits to other charitable institutions (that is, other than so-called 'passive' investments)? **Yes**

The second question that follows is...

2. If so, does such an institution satisfy the requirement in the *Income Tax Assessment Act 1997* (Cth) s 50-50(a) – that it “pursues its objectives principally in Australia” – even though the money is given to an organisation which does the vast majority of its work overseas? **Yes**

In terms of the facts for this case, I won't go into a lot of details and the full federal court decision because they were thoroughly discussed by Myles McGregor-Lowndes and Matthew Turnour in Podcast no. 5, 10th November 2006 and you will find this on the website. But very briefly the details of the case are like this:

- a) Word Investments Limited is a company limited by guarantee established by Wycliffe Bible Translators Australia in 1975. The two entities are linked, with a common registered office and some shared staff.
- b) The Primary Judge (that is the single court judge) found that Wycliffe is “an evangelical missionary organisation that seeks to spread the Christian religion through literary and translation work, predominantly in the third world”. Wycliffe (A parent of Word Investment) is itself an Income Tax Exempt Charity, and is a member of Wycliffe Bible Translators (International).

The Word Investments' Memorandum of Association has the following three features which are relevant to the outcome:

1. It sets out several objects of the association, most of which were accepted to be Charitable Purposes: for example, “to proclaim preach teach enunciate expound and to propagate evangelise ...and increase the Christian Religion both in Victoria and throughout the rest of the world by all means...”.
2. It also provides more general objects clauses which are not, on their own, charitable: for example, to invest the funds in any manner, and even to “carry on any business or activity which may seem to the Company capable of being conveniently carried on in connection with the objects for which this Company is established”.
3. The memorandum contains the usual charitable prohibition from distributing profits to members (apart from normal wages), and importantly allows the company to make payments to “any fund for religious charitable or benevolent objects of any description”.

Now Initially, Word Investments raised funds through housing developments, and then in the 1980s through 'Kingdom focussed' financial planning services: Investors using Word's investment vehicle would give most or all of their interest to Wycliffe and other Christian organisations.

In 1996 Word established a funeral business called “Bethel Funerals” which operated as any other funeral business would, but with the profits being distributed to Wycliffe and other Christian organisations around the world.

Now if you've heard the previous podcast or seen the decision to Word Investments then you would know that they're were two key issues at stake in the appeal and I'll go through each of these two issues.

Key issue 1: Passive Vs Active Investments

The Commissioner for Taxation argued that any commercial activities pursued by a charitable institution must be merely “ancillary” or “incidental”, and that there is a difference between passive investment (such as holding shares) and running a business for profit (such as a funeral home). The Tribunal agreed, and, looking solely at the commercial manner of raising the funds, found that the company as a whole could not be a charitable institution.

The Full Federal Court upheld the Primary Judge's decision to reject this reasoning. The fact that all the *activities* of the entity are commercial does not necessarily mean that the entity itself is commercial. The task (according to Justice Allsop) is to:

... assess the true character or nature of the entity by reference to its objects, purposes and activities. It is an integrated, holistic enquiry directed to whether a body of facts and circumstances satisfies a legal category or conception. (per Allsop at 14)

As the Primary Judge somewhat more eloquently put it:

There may appear to be a vast difference between selling lamingtons at a church fete and selling funeral services, but where the object of raising funds is the same, I can see no reason to draw a legal distinction between the two (cited by Jessup J at 81).

What was important about Word Investment as an entity was that the purpose of the entity itself was the advancement of religion. This distinguishes it from *Glebe Administration Board*, where (at least according to the decision) the entity did not have a charitable purpose in its own right, but was merely a management body controlled by the Church of England. (Justice Allsop accepted that the fine distinction here was between an entity which existed to make profits from its business for use in pursuing its religious purposes, and one which existed to manage diocesan property). While in practice the Glebe Board also gave all its profits to the Church of England, this kind of institutional link is not sufficient to inherit charitable purposes.

At least two judges in *Word Investments* therefore confirm that “mere association with religious bodies is an inadequate basis upon which to characterise the entity as a religious or charitable institution” (at 38 per Allsop J with Stone J agreeing). (The third judge, while still distinguishing the present facts from *Glebe Administration Board*, explicitly left open the question of “whether a trading company, regardless of the nature of the activities which it undertakes, would necessarily be a charitable institution merely because, as a matter of practice, it distributed all its profits to charities” (per Jessup J at 96)).

In my opinion this is a technical distinction without a practical difference – the trial judge (and at least one of the three Federal Court judges) correctly recognised that “corporate structures of many contemporary charities...are complex and involve the use of separate legal entities to perform separate functions” and that where they are all working together to pursue common charitable purposes it is artificial to consider the purpose of each entity separately. It seems artificial that the Glebe Board could become a charitable institution merely by making explicit in its objects clause the Board’s place in the bigger diocesan structure.

Both the Primary Judge and the Federal Court interpreted the additional non-charitable objects as nothing more than powers of management subordinate to the charitable objects (a problem arising from the old style memorandum and articles of association under the previous Corporations legislation. Under the Corporations Act 2001 section 124 a company has all the powers of a person, and these no longer need to be spelled out in the Memorandum of Association. The Federal Court saw nothing wrong in the Primary’s judge’s approach of determining the objective purpose of the institution by a sympathetic reading of the objects clauses, which was in conformity with and “bolstered” by the subjective motives of the directors.

The decision of the Full Federal Court in *Word Investments* is good news indeed, though not a surprise, for those of us who have struggled with the logic (or lack of logic) of the Commissioner on this issue. While it remains to be seen whether there will be an appeal to the High Court, a judgment at the highest level is unlikely in my view to be other helpful to the charities sector in providing the incontrovertible authority that we are so often lacking because our clients do not have the resources to appeal patently wrong lower jurisdiction decisions.

Key Issue 2: Objects being pursued in Australia.

The second issue of objects being pursued ‘in Australia’ was less controversial, although still contested by the Commissioner in the appeal.

As far as the place of the pursuit of the respondent’s objects goes, all three Federal Court judges, the Primary Judge and the Tribunal agreed that the things Word does to pursue its objects – donating money to Wycliffe – it does in Australia. Clarity on this issue also is helpful to those of us with clients which operate overseas – both religious charities and overseas aid organisations. The Commissioner’s argument was given short shrift by the Court. As Justice

Allsop said: (at 56-7) "Word's objectives are pursued in Australia by the donation of funds in accordance with its objects for evangelising religious purposes, which are charitable. If the Parliament desires the place of expenditure of funds by the donee to be analysed before the donor can fall within the section, it can say so. It has not done so in s 5—5-(a)".

Or as Justice Jessup put it: (at 100-101) "...everything which the respondent did, it did in Australia. ...I do not see this as an appropriate occasion to anticipate the kind of avoidance problems that might arise in fact situations not presently before the court."

STORY 2: Brief on the Nonprofit Standard Chart of Accounts

Kathryn Crissman (KC): Hello it's Kathryn Crissman of the Australian Centre for Philanthropy and Nonprofit Studies. Today I'm talking with Morri Young, the director for Matrix on Board. He's going to tell us about the Standard Chart of Accounts and what its impact on nonprofit organisations will be.

G'Day Morri, thanks for joining us today.

Morri Young (MY): Thank you, Kathryn.

KC: To get started, I'd like to hear a basic definition about what the SCOA is and how you think it will help NPO.

Sure. Well most of us who have ever read a balance sheet or a profit and loss statement will know what a chart of accounts is. It's a list of all the accounts that we read about in the reports that we see. And nonprofit organisations, in the same way that commercial organisations, are refining and fine tuning their charts of accounts as they come to get better and better about the report they do about their organisations.

The genesis of the project has its beginning in the work of your colleagues there at the Centre of Philanthropy, in particular, Myles McGregor-Lowndes and Julie-Ann Mee, who have driven this project really from the start. Our involvement being where, the Centre has been able to convince the Human Services CEO cluster group in NSW, that is the Departments of Health, Disability and Aging Department Services, Public Community Services, Housing and so on, so the work done in Queensland in this area would be applicable in NSW human services organisations and their non government agencies that they fund.

So we've been brought on to work with CPNS with both government and nongovernment agencies to look at a Standard Chart of Accounts that would be suitable and applicable to funded services and the governments that fund them.

So the project really has its nascence with you guys in QLD but it certainly has been received well in NSW but I think there is a process in other states including the national government to see if it can be used across the whole country.

KC: Mmm..That's right. There are other states that are following in the footsteps of Queensland and NSW. But Tell me, does this mean that nonprofit organisations will have to change their accounting systems in the near future?

MY: No, not at all. Unless they find that the Standard Chart of Accounts is a better Chart of Accounts than the one they are using. We've been lucky enough to be funded to run workshops and information sessions around the State, we've run now 40 sessions, some 500-600 people had a chance to come to these workshops and with the combined efforts of the Centre's website and our website we've been able to disperse information about the Chart of Accounts across a large number of organisations. Essentially, the Standard Chart of Accounts for many organisations is a slight modification from what they're already doing. But the bigger seller of the Chart of Accounts, where we think the rubber hits the road, is that it comes with a Data Dictionary. Which guides, informs and assists the people who have to code and process transactions, for the people who have to read the financial reports to be comfortable that there has been a consistent application from the moment a transaction commences right through to when the report hits the Board. Using the Standard Chart of

Accounts is a means of ensuring consistency across the organisation and in between organisations.

KC: You mentioned the training workshops that you've been holding for people in switching over to the Chart of Accounts, can you tell us about other assistance that's available for an organisation that is thinking about changing over to the SCOA?

MY: Sure Kathryn. Well, in NSW, particularly with support of Department of Community Services and DDAHC - Department of Disability, Aging and Home Care – we've been able to set up the workshops as described, we've run consultations with government and non government agencies and we've maintained a Help Desk function for non government agencies that are wanting to, perhaps, delay or defer the transition to the Chart of Accounts, so that over a period of time, whenever they're really ready for it and they come to do it, if they want their hands held, we're going to be there to help them do that. So even though, technically I suppose, the Help Desk may have folded up in October, we're still running it through February next year (2008) for organisations who might choose the quiet time over Christmas/New Year, or because of the way they're financial year has run, will be thinking about bringing on the Chart of Accounts at this time of year. So there is a Help Desk function and the details of that are on our website and in the show notes I'm sure we'll be able to provide you with those details as well.

KC. Wonderful. I will say to our listeners, if you listen to the end of our podcast, our host, Gavin Nicholson, will give you the web addresses where you can find more information. What kind of things are available on the website?

MY: You can access the Chart of Accounts themselves and the Data Dictionary. Both are available there to explain how to code, process different transactions into the accounts. There's also a pretty easy step-by-step guide on introducing the SCOA into QuickBooks and into MYOB which cover a large number of the accounting software packages we've seen in organisations, particularly among the small-to-mediums. There's also a great webcast from the Centre, when they ran workshops late last year for people and they recorded those. You can see live, well not live but in a webcast, the training sessions that were run out of Queensland. There are also the manuals that were written by QUT \ The Centre for people who are using MYOB or Quickbooks and a third manual for people who use other software. So there's plenty of help and assistance on the website.

At the end of the day, I have to say Kathryn, that it's just a chart of accounts. When we started to talking to people who at first were very anxious about switching over to the Standard Chart of Accounts and thought it might be a major, seismic shift in the way that they do their work, and they come to realize that in most cases, most of them already have most of the accounts in place and in other cases its just a chart of accounts that they're changing. It's not a revolutionary way to redo accounting, but for a lot of people it's an opportunity to introduce consistent standards and consistence in the way they help their bookkeepers and accountants to understand the way the run their business.

KC: For the little bit that I've heard around the edges of the project, I think that's the thing that I've heard the most, that people have been surprised at how easy it was to changeover and that it was more about how could they use that for the reports to their funding bodies without having to rejig their reports with different terminology, every time they had to do their reporting. So obviously having a standard data dictionary is an advantage and a benefit for organisations. Are there other benefits that you've received in the feedback from switching over to the SCOA?

MY: Sure, ...things are quite different here in NSW than 10-15 years ago in terms of the kinds of financial reporting that's taking place in organisations now, both funders to persons on management committees that are expecting there organisations to be more sophisticated in reporting, to develop more comprehensive formats and frameworks for reporting, and the Chart of Accounts is part of that improvement in financial literacy, even in small to mediums not for profits who have to be much more astute about understanding the financial story of their organisation and reporting and accounting for it.

Hopefully, the big step in NSW, of course, is the funders, who have all committed to the Standard Chart of Accounts, now need to realign their acquittal processes and budgeting processes, so that there is a transparent see-through from applying for funding, reporting on funding and then acquitting on funding. So that government and non government agencies are then able to report to on the same things in the same ways. And this will provide government with a fantastic opportunity to benchmark and compare how their funded services are using and spending the money that they get to deliver services. So we're really looking forward to our human services organisations that have been on board since the beginning of this work, start to now do some work in house, in their organisations, to get things up and running so that they are able to report really clearly about what's happening with funded services.

I know Dr Goldsmeir (sp?) in Department of Community Services, is very keen to encourage her colleagues in the Department and also Kevin Coddick (Sp?) in DDAHC, these two people have been instrumental in getting the big funding agencies to align their acquittal processes to the SCOA which will be a motivation for smaller agencies that are holding off to now come on board.

KC: Fantastic. It occurs to me that it might be a good idea to mention your website at this stage so that people who have a particular interest can grab a pen and write down that website now, while they've got it top of the brain.

MY: Sure. You can find us at www.mob.com.au and there's a menu at the top of the page to the Standard Chart of Accounts.

KC: Fantastic, that sounds easy. And also for our listeners, we'll have a link to the Matrix On Board website from our Australian Centre for Philanthropy and Nonprofit Studies website which you'll hear about at the end of the podcast.

Is there anything else you can think to tell us about the SCOA, Morri?

MY: No, but I do encourage all nonprofit organisations in Sydney and NSW to seriously consider bringing the SCOA into their networks, but also decision makers in other states and the federal government to also look at the SCOA as a means of really ramping up the financial literacy and reporting capacity of not for profits across the country.

KC: Thanks for being with us today, Morri. It's been helpful to hear more about the SCOA and hopefully we'll have you back on the show again in future.

MY: Thank you Kathryn, it's been great.

KC: Thank you.

Music link (Didjeridoo music by Matthew De Boer)

Gavin Nicholson: Thanks Kathryn and Morrie, now our Centre Director, Myles McGregor-Lowndes brings us a short case note about a recent charity law case in Canada and its implications for the Australian jurisdiction. The case was between the A.Y.S.A. Amateur Youth Soccer Association and Canada (Revenue Agency) and decided just last month.

STORY 3:

In Australia, social, recreational and sporting purposes are not charitable. However, social, recreational and sporting purposes and activities that are merely incidental to a purpose that is otherwise charitable do not by themselves prevent that purpose being charitable. For example, many riding for the disabled or blind cricket or sporting wheelies basketball might qualify as charitable.

There are significant policy arguments mounting for amateur sport to be regarded as charitable with the recognition that a population's physical fitness brings significant public

benefits in the quality of life and in reduction of costly public health expenditures. In England and Wales the reforms to charity law have included 'sports or games which promote health by involving physical or mental skill or exertion' and which are amateur. The 2001 Australian Charity Definition Inquiry concluded " that the encouragement of sport and recreation for purposes of amusement or competition not be a charitable purpose, it being noted that the advancement of health, education, social and community welfare, religion, culture or the natural environment through the encouragement of sport and recreation would be considered a charitable purpose." (p 201)

A.Y.S.A. Amateur Youth Soccer Association (the "Corporation") was a federally incorporated not-for-profit corporation, the purpose of which is to promote the sport of soccer in Ontario. The Letters Patent of the Corporation specifically provide as follows:

- a. to fund and develop activities and programs to promote, organize and carry on the sport of amateur youth soccer;
- b. to fund, promote and develop local amateur youth soccer programs and coaching appropriate to different age groups and different levels of ability to increase participation in the sport of soccer;
- c. to raise funds for facilities and equipment necessary to achieve the foregoing objects in ways the law regards as charitable;
- d. to receive gifts, bequests, funds and property and to hold, invest, manage, administer and distribute funds and property for the objects of the Corporation; and
- e. to conduct activities and exercise such powers as are necessary for the achievement and furtherance of the objects of the Corporation.

The Corporation applied to be a registered charity. In its application for charitable status, the Corporation identified that the activities it would undertake to further its objects would include soccer practice, competition, and skills development camps for both youth and coaches. CRA rejected the application for charitable registration on the basis that the promotion of sport is not recognized as a charitable purpose at common law and that since the Corporation's overall purpose is to promote the sport of soccer it did not qualify for registration.

The case made its way through several judicial levels to the Supreme Court of Canada. It unanimously upheld the Federal Court of Appeal's decision that an Ontario amateur youth soccer association does not qualify as a registered charity. The majority judgment confirms the existing common law with respect to the determination of what is charitable in the context of sports organizations, indicating that recognition of an organization, such as the appellant, would result in a significant change to the common law beyond the incremental changes mandated by the jurisprudence and would be best left to Parliament.

The government submitted that 21% of all non-profit organizations in the country are sports and recreation organizations and that acceding to the appellant's argument would have a significant impact on the income tax system. The court agreed with the government stating that "this would seem to be closer to wholesale reform than incremental change, and is best left to Parliament... substantial change in the definition of charity must come from the legislature rather than the courts.

It is noteworthy that the Court indicates that it is "sympathetic to the proposition that organizations promoting fitness should be considered charitable" but that the facts of the case before it did not even establish that the purpose of the organization was the promotion of physical fitness.

The ATO ruling on the definition of charity (TR2005-021) deals with the issue in the following way:

"A recreational or sporting purpose is not a charitable purpose. The following purposes have not been accepted as charitable: a cup to encourage the sport of yacht racing,⁷⁸ associations for rowing, swimming and amateur athletics,⁷⁹ cricket,⁸⁰ the sport of

polo,⁸¹ breeding of pigeons for racing,⁸² angling,⁸³ fox-hunting⁸⁴ and for horse racing.⁸⁵ The purposes are not charitable, even though there might be elements of benefit to the community. “

But

“ A sporting or recreational element does not detract from a charitable purpose if it is merely incidental.⁸⁶ In *Re Mariette; Mariette v. Aldenham School Governing Body* [1914-15] All ER Rep 794 bequests were made to a school for the building of squash racket courts or fives courts and to provide prizes for school athletics. These were accepted as charitable on the ground that the development of body as well as mind was integral to the students' schooling. The sporting or recreational elements formed an integral part of the carrying on of the charitable purpose.”

and

“Sporting or recreational purposes and activities might also be incidental to rehabilitation and for promoting the efficiency of the armed forces. “

In a number of States in Australia legislation extends charitable status to the provision of recreational facilities: section 103 of the *Trusts Act 1973* (Qld); section 69C of the *Trustee Act 1936* (SA); section 5 of the *Charitable Trusts Act 1962* (WA) and section 4 of the *Variation of Trusts Act 1994* (Tas). These provisions mirrored legislation enacted in England, namely the *Recreational Charities Act 1958* (Eng). However, this does not apply in federal statutes such as the Income Tax Legislation.

So, the case affirms the common law and only opens a slight door on the issue of physical fitness. The Canadian court has made it clear that it will not be making decisions that drastically alter the accepted meaning of charity which will be left to the parliament. I suspect that a similar view might also be taken by many Australian courts.

Gavin Nicholson: We now turn to a book review, our first on this Podcast. We asked Charlie Heerey, a student of CPNS and Investment Advisor to look at a new book about the college endowments and their asset management at Oxford and Cambridge Universities.

Story 4 Endowment Asset Management – Investment Strategies in Oxford and Cambridge written Shanta Acharya and Elroy Dimson reviewed by Charles Heerey.

Hello, my name is Charlie Heerey and I am a student at QUT's Centre of Philanthropy and non-profit studies.

In my day job – I'm an investment adviser and have a particular interest in applying investment theories and practices to help Third Sector clients better manage their financial assets - so I was very interested when Myles let me know that the book I am going to review - was released a few months ago.

The book is an extensively detailed study of the approach towards investment management by endowments in the United Kingdom and the United States

Investment decision making is as much a matter of psychology and history as it is about accounting and economics. The experiences of a particular organisation, the composition of the board, the requirements of stakeholders all combine to create a variety of investment decisions and consequences. As most of these decisions are made behind closed doors, this book gives people like me – with an interest in the field – a fairly rare insight into how these organisations view the dark art of investing.

While it won't knock Dan Brown and JK Rowland from the best seller list, the book is thought provoking and includes a wealth of information for any professionals with an interest in asset management issues for educational and other organisations.

So – I am going to give you a few comments about
Endowment Asset management – Investment strategies in Oxford and Cambridge
By Shanta Acharya and Elroy Dimson
Oxford University Press, 2007, First edition, ISBN 978-0-19-921091-6, 342 pages

Shanta Acharya is associate director of the Initiative on Foundation and Endowment Asset Management at London Business School.

Elroy Dimson is BGI Professor of Investment Management at London Business School.

The authors have written a comprehensive analysis of the different approaches taken to asset management between colleges at Oxford and Cambridge and more broadly, the differences in approach between UK colleges and their major US counterparts.

Over 342 pages they analyse the approach of college endowments to asset management - breaking down their study into 15 chapters. The authors begin by analysing the definition of endowments; then move to the nature and structure of investment committees, investment objectives, spending policies, asset allocation, investing in property, issues in portfolio management, Portfolio risk, consultant selection and monitoring, manager selection and monitoring, socially responsible investment, performance measurement, endowment management cost, fundraising and the role of gifts.

As Anthony Tomei, the Director of the Nuffield Foundation, observes in his recommendation on the back cover of the book, “ Particularly interesting is their treatment of the fundamental question of how to balance the competing needs of the present and the future, one of the book’s leitmotivs.”

I agree.

It’s this point that distinguishes the investment philosophy behind asset management for third sector organisations. Most endowments and non profit organisations have a perpetual mission and the trustees or directors of these groups face an intergenerational equity issue which put simply is - do we favour Money today versus money tomorrow? The authors refer to Nobel Laureate James Tobin’s great quote when they write - The trustees of an endowed institution are the guardians of the future against that claims of the present.

Another key takeaway is that good endowment asset management is more than just an end in itself. As any fundraising professional knows, potential donors place a lot of emphasis on the quality of management. In the context of asset management, they argue that fundraising requires showing that endowments under management are performing efficiently.

Clearly, the extent of their study is one of the books greatest strength. Statistics on investment decisions and philosophies are rarely, if ever available from for-profit organisations let alone not-for-profit sector. As the authors consistently demonstrate over 15 chapters, organisations with ostensibly similar objectives and time frames can and have develop dramatically different strategies.

Both the authors – in particular Acharya –have worked in the financial markets and therefore their analysis is grounded in the reality of finance – and in particular the impact of decisions on short and more importantly long term returns. In chapter 2 they describe how differently run are the massive Yale and Harvard endowments in the United States. Referring to investment committees on page 53, they point out that differences in management structures have consequences, not just in terms of compensation packages for managers, but critically for the institutions.” And point out later, “ even a modest gap in annualised performance can have substantial impact over the long haul.” The authors point out that Yale’s investment returns of 16% per annum produced a 2005 Endowment value of more than 10 times that of

1985. "Thus" they argue, "governance and management structures matter, if they can improve asset allocation decisions that result in superior long-term performance."

For someone working in the field, I found their discussion on asset allocations and investment objectives a great read – although I found I had to sometimes force myself to stop taking notes or I would never finish reading the book. One of the interesting responses to setting return targets on page 80 was –“we don’t believe in setting return targets because you can’t control both returns and risk, and we prefer to control risk.” I also note the authors go on to say that there appears to be a low correlation between size of endowment assets and investment return targets.

It was encouraging to read that as of 2004, most of the investment committees in the field were beginning to focus on total return rather than just income. I was not aware that it is only within the last few decades have these institutions had much choice at all over their investment decisions and even that discretion was limited as until 2000, UK universities tax exempt status limited them to spending only income earned from their endowment investments not via capital gains – thus many operated under mandatory income only spending rules which meant that assets were managed to produce income.

However, the extent of their study is also one of the drawbacks of the book. With the exception of Oxbridge bursars, I think that most readers would agree that 120 tables of comparative data throughout the book is bordering on too much statistical information and I believe it detracts from the flow of their analysis – particularly where paragraphs are spent verbalising the information in the table above. The detailed responses from many of the colleges provide some very interesting insights although from a publishing perspective, the formatting of the responses could have been done better. If the responses were in another font or italics or simply offset from the margin it would have read better. A number of times I found I had to stop and re-read sections to confirm where commentary and quotes started and finished.

A difficulty of any analysis of investment strategies will always be the context of external financial market conditions. The authors are the first to admit that the responses will be out of date well before the book is published. The book extensively details approaches to endowment asset management over 2003-2004. As we know, global financial markets were only just emerging from some disastrous years by late 2003 which saw many endowments see substantial declines in the value of their corpus. At the time, you would hardly blame a bursar of a college endowment fund – who is more often than not doing other jobs and also probably from an accounting background –if he or she is largely conservative with their investment and concerned with ensuring that investments help fund current spending requirements. Of course, with perfect hindsight, we know that 2003 was the start of a healthy bull market and conservative, yield focused endowments with a large holding in bonds got left behind.

The authors also write extensively on the much greater exposure of US educational endowments to alternative investment strategies such as private equity and hedge funds. While history shows that these asset classes achieved impressive returns in following years, the very recent credit crunch of August 2007 suggests that hedge funds and alternative equity funds can have extreme short term volatility if market confidence and liquidity dries up.

They do make a very good point in their discussion on spending policies when they remind any committee to be careful about setting policies on the basis of an abnormal year.

So –overall, the book represents a good addition to the literature on financial asset management issues for endowments and the broader Third sector. Perhaps my library catalogue skills need sharpening but I have found the field surprisingly sparse and this book is well worth a read by anyone working with financial assets of the third sector.

CLOSING

Gavin Nicholson: You can find further information about any matter mentioned in this podcast through the CPNS web site. Go to <http://cpns.bus.qut.edu.au> and then click the podcast link.

I'm Gavin Nicholson and you've been listening to CPNS-QUT-Nonprofit Podcast.

Closing Music. (Didjeridoo music by Matthew De Boer)

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