INVESTMENT STRATEGY

Tough choice for non-profits

Innovest CEO sees greater risk appetite to sustain spending.

Rich Todd, CEO, Innovest Portfolio Solutions, a Denver-based investment consultant with over $6 billion in assets under advisement says foundations need to come to terms with the reality that if they are unwilling to increase their risk exposures, they will, for the most part, need to cut their distributions. "Investment policy and spending policy are intertwined. If a fund isn't willing to take risks, they probably need to reduce their grant making," he told *Philanthropy Management*.

For foundations subject to the 5% pay-out rule, "most, but not all", are taking more risk in their portfolio. An alternative is to put increased energy into development; in other words, raising funds to make up the gap.

Looking ahead, Todd does not see any relief on the horizon. "If you look at economic growth round the world, it's lower and slower," he says. "We have some big macro problems that are a formula for slow growth. The likelihood of 3-5% GDP growth in an environment where unemployment is high and job creation has been disappointing is small. In Europe meanwhile, many countries are looking at austerity and they're struggling with taking that medicine."

RICH TODD, CEO, INNOVEST PORTFOLIO SOLUTIONS

"It's about the math," says Todd. "One of the ways to hedge volatility in a portfolio traditionally has been fixed income. It has been a wonderful way to reduce risk, but now, because interest rates are so low, it's a very expensive hedge." In a time of meagre growth, says Todd, clients tend to have more invested in alternatives. "Funds have to look towards hedge fund type products and other areas of the fixed income market such as lower grade bonds, private equity and real assets," he comments. **PM**