

Our Fiduciary Focus educational series is your resource for information about not-for-profit institutional investing, board governance, OCIO services and more. Learn best practices and industry trends that improve your operations and advance your organization's mission!



## Investment Complexity and Operating Models

Boards of directors and investment committees of not-for-profit organizations serve many vital functions. One of their most important tasks is the implementation and monitoring of an organization's investment program. This function is critical to protecting the organization's assets and generating consistent returns that support its core mission in perpetuity.

Organizations are challenged in several key areas when it comes to their investment program:

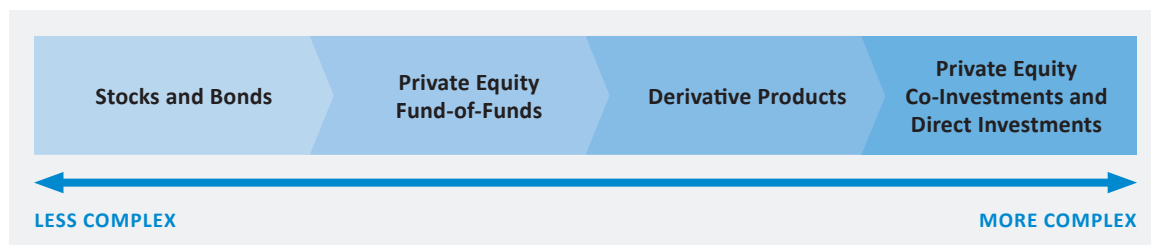
- 1 Striking a balance between risk tolerance and funding annual spending
- 2 Deciding whether to partner with a traditional investment consultant or a fully Outsourced Chief Investment Officer (OCIO)
- 3 Determining the optimal structure, or operating model, through which the organization holds its investments

In this article, we will discuss that final consideration: investment operating models. More specifically, we will look at the levels of complexity in various investable asset classes and investment operating models, highlighting what should be top of mind for organizations as they consider their investments.

### Complexity by Asset Class

One of the biggest questions that organizations face is the extent to which they want to invest in complex asset classes.

Traditional publicly traded stocks and bonds tend to serve as the foundation for most investment portfolios. One reason is that these investments are generally straightforward—they can be purchased on regulated exchanges, are relatively liquid and can be held in various types of investment accounts. However, there are plenty of other investable asset classes that may help deliver the returns organizations desire.



This is just a snapshot of the options that are out there, though it does help illustrate the diversity of choice that organizations face.

All these assets classes have different risk/return characteristics, and generally speaking, as one moves from left to right on the diagram, they become less liquid and create a heavier middle- and back-office burden. These assets classes may all be compelling options, but it's crucial that organizations consider their own risk/reward profile, long-term investment objectives and resource capacity.

### Also Read: Wespath White Papers

To help our investors better understand different asset classes and how they are utilized in the Wespath funds, we've published several helpful white papers, including:

- [Wespath's Private Equity Strategy: The Evolving Approach](#)
- [The Small and Mid-Cap Stock Advantage](#)
- [Global Bonds—Expanding Opportunities](#)

All these papers can be found at <https://www.wespath.com/investor-resources/white-papers>.

## Complexity in Operating Models—Commingled Funds vs. Separately Managed Accounts

Another area where organizations need to consider their capacity to manage complexity is the model by which they structure their investments. For many, this question boils down to the important choice between utilizing commingled funds or separately managed accounts (SMAs).

Investing in a commingled fund is a popular approach that many investors consider to be fairly simple. Through this structure, an organization invests in a fund where their assets are “commingled” with those of other investors. Common examples of commingled funds include mutual funds and exchange-traded funds (ETFs).

These funds can be accessed relatively easily by organizations, and logistics, like dividend management, are typically handled by the fund manager. This simplicity makes commingled funds a good option for investors of all shapes and sizes—even large institutional investors that want to avoid complex back-office tasks.

Alternatively, an organization may seek to structure its investments through an SMA. In an SMA, a third-party investment manager executes an investment strategy designed solely for that investor.

SMAs tend to be more customizable than commingled funds. For example, mission-focused organizations can enter into an SMA in which the investment manager excludes specific securities not aligned with that specific organization's values. Another benefit of SMAs is that because the underlying investments are held at a custodian bank, an organization can decide to change their investment manager without selling their securities; they can transfer those securities to a new manager “in kind.”

However, SMAs also come with challenges and complexities. Most notably, organizations utilizing SMAs require the internal staffing resources to work with their custodian on reconciliations, corporate actions, dividends, tax reclaims, local market restrictions, securities lending and cash management. For this and other logistical reasons, SMAs are more often used by more sophisticated investors with the capacity to handle such tasks.

## Our Approach

At Wespath and WII, we have exposure to many types of investments of different levels of complexity, and we partner with institutional investors who themselves seek varying levels of complexity. Our dedicated team of investment professionals can help your mission-focused organization decide the solutions that best fit your needs. To learn more, please visit our website [here](#), or contact:



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### About Wespath

Wespath Benefits and Investments (Wespath) is a not-for-profit agency that has been serving The United Methodist Church (UMC) for over a century. In accordance with its fiduciary duties, Wespath administers benefit plans and, together with its subsidiaries, including Wespath Institutional Investments, invests over \$29 billion in assets on behalf of over 100,000 participants and over 130 United Methodist-affiliated institutions (as of September 30, 2021). Wespath funds invest in a sustainable manner that supports long-term value creation while having a positive impact on the environment and society and upholding the values of the UMC. Wespath maintains the largest reporting faith-based pension fund in the world. [wespath.org](https://www.wespath.org)



### About WII

Wespath Institutional Investments (WII) is a not-for-profit subsidiary of Wespath, a general agency of The United Methodist Church (UMC). WII provides investment solutions for institutional investors related to the UMC, including foundations, children's homes, older adult facilities, higher education institutions and healthcare organizations. WII offers diversified global exposure to its world-class investment managers through a family of daily priced funds. WII's investment process proactively incorporates the consideration of environmental, social and governance (ESG) factors into investments across asset classes and in the selection of external asset managers. [wespath.com](https://www.wespath.com)

