

Fiducient Advisors, Nonprofit Investment Stewards Podcast
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Future Outlook on Equity Markets (2021 Year-End Updates) with Jim Thomas

[00:00:00] Welcome to Non-profit Investment Stewards with Bob DiMeo and Devon Francis from Fiducient Advisors. Bob and Devon are passionate about helping nonprofit organizations prosper. Whether you oversee endowment, foundation or retirement plan investments, this podcast exists to help stewards improve performance, reduce costs and discover strategies that enable your charitable organization to prosper and advance its mission.

[00:00:26] Now onto the show. Hello, and welcome back to the Nonprofit Investment Stewards podcast. I'm Bob DiMeo. Great as always to be joined by co-host Devon Francis. On today's episode, we have a guest who I've known for some time, and while he's a leader at a religious organization, he's about to share timely insights on everything from investment committee best practices to navigating portfolios in these unusual times and a whole lot more.

[00:00:54] I'm telling you that if you have anything to do with the oversight of your nonprofit's investments or finance, you're going to like this episode. But before that, Devon, how are you doing today? I'm great, Bob. Thanks. I'm very excited that we're joined today by Jim Thomas.

[00:01:09] Jim is the CFO of the Clerics of Saint Viator, which is an international Roman Catholic religious congregation headquartered just outside of Chicago. The order has a vast footprint with numerous churches and schools throughout Illinois, other parts of the US, and even South America and beyond. Jim holds an MBA from Northwestern and degrees in mechanical engineering from Purdue University.

[00:01:32] And prior to joining the order, Jim served in numerous roles in the for-profit world, including being COO of an aerospace defense company, president of a consumer products company, and a change agent at other organizations as well. So, we're so glad to have him on the show. Jim, welcome. Thank you very much.

[00:01:50] Great to be with you. Jim, it's really great to have you here. And as I mentioned, we've known each other for a while. And when I think of you, I think of a really smart guy, but a really kind guy. And you've come from this for-profit side. And now you've been on the nonprofit side for a while. Can you talk a little bit about your path to becoming a leader in the nonprofit world and specifically with the Viatorians?

[00:02:10] Sure. It's sort of a, um, I'll make the long story short. Later in my for-profit career, I was buying and selling tech companies acting as interim CEO type positions, helping companies get ready to sell or advise them accordingly.

[00:02:26] And I had just finished an engagement. And at the time, I was on the board of trustees at Saint Viator High School. So, Father Tom Von Vehren, who was the, who I've known for a long time, who was the provincial, called me and said, I want to talk to you. And I thought it was a networking type of thing, type of discussion.

[00:02:46] But it turned out, the treasurer of the Clerics of Saint Viator, who was a priest, was getting to retire. And he asked me if I would consider the position. And like your introduction, I said, Tom, I'm a for-profit guy, a tech guy, an aerospace guy. Let me think about it. These are the kinds of things that you should also think about.

[00:03:03] And having gone through a change as an organization, the real message was, if you get a guy like me, you have to listen and you have to be willing to change et cetera. So, after a lot of mutual discussion and thoughtful prayer, I decided to join. So, it's been over, it's just been about 12 years and it really, I have to say it's been some of the best years in terms of quality of life and quality of work-life, because I was, I've been able to take all the for-profit knowledge and apply it to the not-for-profit world.

[00:03:37] And enable the Viatorians to do things they might not necessarily have been able to do because now they're financially stronger, we run this place like a mid-cap company with all the appropriate controls and processes. So, long story short, it's been really fun. And I think a very rewarding and [00:04:00] and mutually beneficial experience.

[00:04:02] Oh, that's just terrific. And boy, I hadn't thought of father Tom for a bit, the legendary father Tom, I want to say. And, and, uh, what a terrific thing that he saw in you something that would add value, and obviously, it certainly has. So that's just wonderful. And maybe you can just touch a little bit on the Viatorians, their reach, and the financial matters under your oversight.

[00:04:25] I mean, clearly, there's investments. We work together. Uh, but certainly dive into that, but there's a lot more to a religious order particularly of this size. Isn't there? Yes. Yes. Well, the Viatorians in and themselves are a global religious congregation. So, they, with their seven provinces, they're all over the world.

[00:04:45] And with the provincial or the general, provincial general, who is here in Arlington Heights, I get to help him on some financial matters that pertain to the global congregation. The province of Chicago, which I fundamentally work for, has a reach both in the United States as well as South America. We have a foundation in Bogota, Colombia, which in essence reports into the provincial.

[00:05:10] So, we have that enterprise down there to look at. And you're right, Bob. It's more than just finance. I sometimes refer to myself as the chief risk officer in the sense of the finances in and of themselves are fairly straightforward. This office and where we really made progress is doing things monetizing the assets that they may not have thought about doing, doing things differently to mitigate risks for the congregation, as well as managing money, honestly, quite differently than they have in the past before I joined.

[00:05:44] So, it's terribly fascinating. Every day's a little bit different. Every month brings a new challenge. So, it's fun. It's very interesting. So, Jim, let's talk investments. First of all, can you provide us with a broad overview of the investment programs, the types of portfolios that you serve, the purpose of those portfolios?

[00:06:03] Sure, sure. We have fundamentally three endowments that we manage here. One is the overall endowment that the Clerics of Saint Viator in essence live off of and fund their activities and their

various ministries. The second major portfolio is we have a pension plan. So, we manage the pension assets for the betterment of, the benefit of the participants.

[00:06:28] And then the third is the high school endowment for the high school here in Arlington Heights, Saint Viator High School. So, there's three major endowments and each endowment has sort of a different requirement and funding requirement and expense portfolio, if you will. So, they don't have all the same makeup in terms of the typical equity-fixed income split.

[00:06:54] So, they're all tailored to do the thing they need to do best. Got it. And, and how would you describe your overall investment philosophy as it pertains to these different portfolios? Oh, they're all modeled on a perpetual endowment. The endowment has to continue to spinoff money forever.

[00:07:15] So, we have to be very careful. And at the same time, we have to earn money. So, it can't be all fixed income, but it's not all equity-based. So right now, there's approximately a 60-40 split in equities versus fixed income. And that seems to be the right spot for us. It's spinning off enough cash.

[00:07:37] And keeping the risks down in terms of ongoing market fluctuations, which has been tremendous over the last two or three years, especially with COVID et cetera. Yeah, absolutely. We've been very volatile over the past couple of years. So, how has the allocation shifted from, maybe from stocks to bonds or vice versa over the years? You mentioned the 60-40 portfolio. Or if it hasn't shifted, do you anticipate any meaningful changes in the near future?

[00:08:06] Yeah. So, the most meaningful changes that we incurred on the pension side, we put in a LDI strategy, a liability-directed investment strategy because the pension plan is fairly well endowed and funded. So, we want to leave, we want to take as much money, risk money, off the table as we can. So, the LDI strategy develops that. When I first came here, both the pension plan and our endowment was in essence invested the same way with very similar holdings.

[00:08:40] Which, you know, at the very beginning, wasn't the right thing to do when we finally got that sort of fixed. So those are like asset allocations on, uh, on our endowment side. It's about 60-40. The pension side, it's about 50-50.

[00:08:55] And obviously as the LDI strategy continues on, it will be less and less equity-based determined, [00:09:00] as determined by the benefit structure going forward. But I think one of the most important things is the manager selection within those allocations. And that's where we've done a lot of work over the last five years is, is really honing, for large cap, do we have the right large cap manager?

[00:09:21] For small cap, do we have the right small cap manager? That's I think where we've made some very good inroads in terms of making the portfolio as efficient as we possibly could. And Jim, can you possibly talk a little bit, when you talk about manager selection, the allocation, specifically on the manager allocation, your views on actively managed portfolios and passively or index type portfolios?

[00:09:44] Sure. I'm a big active fan because I think that's where you get the alpha. If you're all in passive, I've talked to a lot of colleagues, if you will, the passive, they think they are saving money by, active seems to scare them. But active is the only way for us to get that alpha.

[00:10:03] I think if you, I mean, especially with COVID, you want an active manager doing what they see best in the market. And a passive plan will just sort of ride and you suffer the ups and downs and sorta get that mediocre approach or return if you will. So, I am a big active fan and willing to pay those fees, because I think in the end and over a course of a number of years, you earn that back five-fold in my mind.

[00:10:29] So Jim, how do you think about balancing the investment profile for what at times might seem like opposing objectives? So, for instance, a school may have a perpetual time horizon while some other initiatives that these assets support do not. Well, I think one of the, one of the key things here when I meet with the provincial council is to stress the long-term horizon of our investment plan and policy.

[00:11:01] So you know, the weekly, the monthly, even the yearly ups and downs really are not of concern to me if I believe that the asset allocation is correct, and we have the right managers or the better managers in those places. I think historically, if you look in the rear-view mirror, we've done very well with that strategy.

[00:11:21] In the sense of we can't win every month, we can't win every day. Some years are better than not. Our last fiscal year, we earned over 30%, that will pay for a lot of down years in the future. So that's what I try to stress to the provincial council is this is really the long game. We can't necessarily, we don't want to day trade.

[00:11:43] We don't want to change our asset allocation. We don't want to change our policy, because a new ministry comes online or one falls offline. So, it's a constant policy that we keep honing and tweaking and we just keep in place. That seems to have worked out really well for us over the last 12 years and how we take money out of the market has changed a lot of the last 12 years.

[00:12:04] And we rebalance every time, we typically take money out of the market quarterly based upon our needs. And every time we do that, we rebalance. So, we're always, we always hit our mark on that quarterly report Fiducient sends out. We're always on the mark for our asset allocation.

[00:12:25] We rarely drift too far. When stocks run, that's where we'll hit the draw et cetera. So, we always bring it back. So, we're always on tasks for the asset allocation. So, we're never too far off our goals. So, using cash flows, both in and out, to rebalance, that keeps you close to the target. Yes, I do a cash calculation every quarter and then advise Fiducient what our draw needs to be.

[00:12:52] And then we make that draw. That's great. That's great. And Jim, we've talked about stocks and bonds just broadly. Can you talk about the order's view on alternative investments, whether it be private equity, which I know you have prior experience in, in your career, hedge funds, just outside of the traditional investing, what the order's view might be? Yes. So, over the last year, we've actually added a private equity slice to our portfolio.

[00:13:18] And I think we agreed to like a 4% holding in the long term. And we've been, you know, every quarter, as an opportunity comes up, we fund that. Because again, we're looking, we believe our strategy will perform well over the next five to 10 years, but we're looking for that alpha, we're looking for a way to get a little more hedge in the market, out of the market.

[00:13:50] And we see that as, I mean, it's obviously a little risky, but I think the firms that we have chosen provide a relatively fair risk reward profile, if you will. So, we're very happy with our decision there. So, let's shift gears a little bit and talk about mission-aligned investing or socially responsible investing.

[00:14:09] How does the Clerics of Saint Viator view mission-based investing and is that reflected in the portfolios at all? Well, we obviously have the portfolio screened but what we found as we dug into it, the screens can be misleading and sometimes drive an organization in the wrong way. So, we've backed off on the screens a little bit in terms of really understanding what is getting screened out and why?

[00:14:36] Cause I think early on when I first came here, we saw the screens pushing a manager out when we probably shouldn't have, so the screens tend to manage the manager if you're not careful. So, we take a very intense scrub, if you will, of the screens and what they're telling us. And all the managers participate.

[00:14:56] So, we get a quarterly report from the managers as to what's being screened out and why, and we up the level a little bit. Because Microsoft, for example, doesn't get screened out, but it's one of the largest DOD contractors in the world. Some companies get screened out because they're, 1% of their sales is derived from one of those streamed issues.

[00:15:19] So, we're very careful on how we screen things. We want the professional money managers to manage the money. Then, we socially impact via our ministries. So, we have a nice balance here. I mean, we're not, obviously we will never invest in anything that really is an issue, but we're very careful, uh, if that makes any sense.

[00:15:43] Yeah, it makes perfect sense. And it's great that you have the resources and the ability to dig to that next level. A lot of folks, I think, just take a look at the US CCB guidelines and do those initial screens, but don't take the next step of really looking at the portfolio, [00:16:00] the company level, and saying, okay, does or does this not violate the principles that we're supposed to be following?

[00:16:08] With regard to mission-aligned investing, do you anticipate that we will be entering a phase where there's increased attention to that space or increased activity with regard to socially responsible investing? Well, I think, I think that space deserves attention. I think that's wonderful that managers or investment companies are offering that to people.

[00:16:34] Cause as you said, not everybody has the ability to do a deeper dive on how the money is being managed at that company level, and that provides an adequate answer for a lot of folks. I think that's wonderful. I'm just trying to, we, the Viatorians, are trying to hone in even to a larger degree on how the money is being managed.

[00:16:59] [00:17:00] We will never, as I said before, never invest in any one of those hot issues, but we don't want to manage the manager. That defeats the purpose. We're not smart enough. We don't have the ability to do the research on these companies. So, we don't want to affect to a large degree their well-honed strategies and all the research these money managers are doing.

[00:17:24] So, we, I think it's a nice balance and I think everyone here is comfortable with that. Jim, it sounds like such a well-reasoned approach. Thank you for sharing that. And as you talk about the different portfolios, you sort of have the orders, endowment I'll call that maybe the main endowment, and then you've got the retirement fund and then you've got the high school endowment. You're dealing with different stakeholders, different committee members and such. Any suggestions or thoughts you have about best practices in terms of working with stakeholders, whether they be committee members or others?

[00:17:55] Sure. Sure. I think the most important thing that we do here is communicate. We communicate a lot because not everybody, everybody has a different, uh, you talk committees, you talk various committees, everyone's coming at this with a different level of understanding and experience, et cetera.

[00:18:12] So, we try to communicate in anticipation of questions. So, why, you know, if we change a manager, why we're changing the manager? We provide all the data, et cetera. And we're not necessarily waiting for approval, but we're, we're trying to do it on a consensus based, cause we don't want to be held up.

[00:18:34] If there's an obvious change, we're not quick on the draw. Cause everyone has a bad month, a bad year. But collectively, when we see there a change needs to be made, and you guys obviously help in that regard significantly, we want to move and get into the right manager or the right space quickly.

[00:18:52] So, I think an ongoing, if you're, if you have a committee and the approach is just what you said before, this ongoing dialogue, as opposed to event communication, where there's no communication and then something happens and then all of a sudden, we're communicating. We treat everyone as an ongoing discussion.

[00:19:14] It's not weekly, but it's definitely monthly. And we provide, I provide my take on why they're seeing the results they're seeing. So, there's a semblance of, yes, our endowments are down but the whole market's down, and with the volatility you're seeing, that's nothing to be concerned about.

[00:19:33] So again, it's communication, it's data-driven, and it's reminding everybody we're in it for the long haul, which tends to help really a lot. Yeah. And we're so grateful that you're doing that kind of on our behalf. A lot of times, that's something that we try to hammer home with our endowment clients is this concept of perpetuity.

[00:19:53] But it's so easy for folks to see a negative number for the quarter and get all spun up about that. So, it's great that you're keeping your eye on that long-term objective and telling your constituents to do so as well. That's really important. So, one of the things I did is I ran like a 25-year history of the endowment performance.

[00:20:18] And that opened up a lot of people's eyes because, especially in the last major downturn, so many people panicked and got out and you could never, you could never have achieved the return if you had pulled out and then got back in too late. And when you look at the history, it's a testament to the strategy, if you will, because it all sort of works.

[00:20:45] And that's a good, that's a good tool to use to talk someone off the ledge of a quick change or a quick response. It's hard. I mean, it's tough to see a minus five or minus 10% in your portfolio, but if you believe in the long game and the long market and the health of the overall economy, you just have to keep your hand off that change button, if you will. Easier said than done sometimes.

[00:21:13] So, Jim, what would you say is the greatest challenge for someone in your role today? And then, you know, maybe the flip side of that, the greatest opportunity for someone in your role? Well, I think, I think I would change the question. What's the greatest or what's the hardest thing for a religious organization? It's to make that change from a professed CFO, if you will, to a lay CFO.

[00:21:31] I think with, I mean, overall religious congregations are aging out. Young religious don't necessarily want to be a finance guy or that's not why they're joining the order. They're doing it more for ministry type work, which is totally understandable.

[00:21:53] So, I think, I think the transition from a professed CFO to a lay CFO is almost a given and [00:22:00] how that's managed and how that unfolds is critical to the organization and to the vitality and more importantly, the sustainability of the organization. So, I mean, we, I mean, the stars aligned for the Viatorians in the sense of the timing of my appointment, if you will, and the market.

[00:22:21] The market performance. And we were able to do these things all at the right time. It's been a tremendous 10 years in terms of returns. And I don't think that would have happened necessarily if there was still a professed in-a-finance role, because you just open up the, you just are able to open up the horizons in terms of opportunity and other things that can be done.

[00:22:43] So I think the challenge more sits with religious congregations. Seeing that opportunity, it's not a threat, it's a natural evolution and a lay CFO or a lay person in these kinds of roles can bring a whole wealth of experience and foresight and insight and other professionals to bring to bear on.

[00:23:05] This situation of sustaining religious congregations. Great perspective, Jim, and we've covered a lot here in a short amount of time. Before we let you go, I'm curious. What else that you might want to share with our listeners? Many who oversee endowment, foundation portfolios, that sort of thing.

[00:23:24] Anything else you'd like to share with stakeholders and leaders in that space? One of the things that I would always consider is communicating, you know, with Fiducient, quite honestly, we have an ongoing discussion and dialogue. It isn't event based. So, I think the more you can keep in tune with your stakeholders and your investment managers, the better off you are.

[00:23:46] I think that's a key critical aspect. When I look in the rear-view mirror of our success here over the last 10 years, is an establishment of dialogue. There's nobody I can't pick up the phone and call. If [00:24:00] I do call, those people call back and questions can be answered before they result in issues.

[00:24:05] And I think, I think that overall concept of continuing, continual dialogue is critical in a situation like this. Yeah. That's great advice. So, Jim, before we wrap up, we always like to find out something personal about our guests. So outside of your work and volunteer efforts, which I know are many, what do you truly enjoy doing?

[00:24:30] Well, as I, as I told Bob previously, I now have three grandchildren, a two-and-a-half-year-old little girl, Avery Margaret, and two little girl twins that were just born seven months ago, Teagan and Lily. So, as their papa, I really enjoy them for sure. Uh, I take time out of my day to be with them.

[00:24:50] They live close. And we provide some childcare, my wife and I, which is a tremendous enjoyable experience. So that's, that's my new [00:25:00] hobby. My grandchildren. Oh, that's wonderful, so glad to hear that. And so wonderful that you get to be a part of their daily lives. Not many people get that. So, Jim, we are so appreciative of your time and your expertise.

[00:25:12] If folks want to learn more about the Clerics of Saint Viator or about the work that you do, where might they go to access some resources? So, you can, I mean, we obviously have a website, www.Viatorians.com. And a lot of information is out there on the ministry side, but if anybody ever wants to reach out and have follow up questions, they can, I'm sure they could contact Bob and Bob could pass them to me.

[00:25:35] And I'd be more than happy to have a dialogue, enter into a dialogue and, and help where I can. Right. Well again, Jim, thank you so much for your time. You shared wonderful insights and it was wonderful to have you on the show. Thank you very much. Appreciate the time. Jim, I will echo Devon's thoughts, just, I mean, I used the term reasoned earlier.

[00:25:53] You just have such insight and a really good approach. There's, I'm actually meeting with a prospective client later this afternoon. It's a Jewish community foundation. I almost want to bring you on that meeting because you have such a clear thought process on this, but anyway, so grateful, really, really glad to have you on the show. And candidly, thankful to our listeners as well.

[00:26:15] It's a good time of the year now to thank our listeners and to simply wish them the best as they work to advance their meaningful missions. And as always, they can reach out to Devon or myself for help. And I love that Jim actually offered as well. So, thanks again, Jim. My pleasure.

[00:26:31] So, to all you good stewards, thanks for investing time to help your nonprofits prosper. We'll connect with you soon on the next episode. Thank you for listening to the Nonprofit Investment Stewards podcast. Click the subscribe button below to be notified of new episodes and visit Fiducientadvisors.com for more information. The information covered and posted represents the views and opinions of the guest and does not necessarily represent the views or opinions of Fiducient Advisors.

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