

Fiducient Advisors, Nonprofit Investment Stewards Podcast Episode 38, February 23, 2022

How Nonprofits Should Manage Large Cash Inflows with David Piccerelli

[00:00:00] Welcome to Nonprofit 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.

Now onto the show. Hello and welcome [00:00:30] back to the Nonprofit Investment Stewards podcast. I'm Bob DiMeo. As always, joined by cohost Devon Francis. Today, we have a really interesting episode for you. Sometimes, the nonprofit organizations will receive a significant inflow of cash, and sometimes, that cash comes when they're not expecting it at all.

That's obviously a great problem to have. But it does create a circumstance that includes its own challenges. Today, we'll hear from a Fiducient Advisors client who went through this very [00:01:00] experience. He's about to share what that was like, how his nonprofit handled it, and what advice he has for others.

But before we meet our guest, I'd like to welcome my cohost. Good to see you, Devon. You too, Bob. Thanks. Uh, great to be here as always. So today we are thrilled to be joined by one of the nonprofit leaders I personally most enjoy working with. David Piccerelli is the president of WSBE Rhode Island PBS, a role that he assumed in [00:01:30] 2010 after having served as PBS' vice-president and chief financial officer. David has overseen some very impressive projects and endeavors in his tenure with Rhode Island PBS, including shepherding the station's complex multimillion dollar conversion from analog to digital broadcasting in 2009.

And moving from state ownership to becoming an independent community licensee in 2012. While the latter move effectively ended state funding, it opened up new opportunities [00:02:00] for growth and expansion. David holds a BS in accounting from Bryant University and serves on a number of professional public broadcasting committees and associations.

He is a member of the board of Providence Business Loan Fund and is an avid golfer and food and wine enthusiast. So, David, thank you so much for joining us. We are thrilled to have you on the show. Thank you, Devon and Bob, I appreciate the invitation and looking forward to spending some time with you. That's great, David.

Well, golf, food, wine. You're already [00:02:30] on my good list here, David. It's so, so good to have you here. So perhaps David, uh, you could share a bit about your story, what your role is, how you landed there, and frankly, what your day to day looks like. Okay, let's try and keep it brief. I started here in 1998 as the chief financial officer and, uh, for a period of time, was active in that role.

Uh, had an interim stint as the president and CEO, uh, upon retirement [00:03:00] of the woman that hired me in 98, took over in 2010 as the president and CEO. And now I'm the president of the Rhode Island PBS Foundation, which is the license holder of WSBE after the transfer from the Rhode Island Public telecommunications, state of Rhode Island, to the Rhode Island PBS foundation.

So, what does a day in the life of David Piccerelli look like from a professional perspective? Well, [00:03:30] it's a mixture of both administrative as well as fundraising responsibilities that I have. We have 86 full and part-time combined employees here that do a myriad of different duties, whether it be from production, whether it be the actual scheduling of content that we have on the air for our broadcast, the engineering department, it's clearly a large part of what we do is in the development area or the fundraising activities with several different lines there from [00:04:00] membership to corporate sponsorships to events.

So, it's kind of a mixed bag of both. You know, being an administrative person and running an organization as well as fulfilling my fundraising duties in the community as well. Excellent. So, tell us about the event that led Rhode Island PBS to go from an endowment of zero to an endowment of \$80 million essentially overnight.

Wow. Again, I'll try and keep this brief because it was a very involved process. Some [00:04:30] of your listeners may be familiar with the, uh, FCC's, uh, spectrum auction that was conducted back in 2016, 2017. In a nutshell, the

FCC was desirous of buying back some of the best spectrum space that exists for repurposing it for the wireless companies.

As our demands, as consumers have increased with our cell phones and our iPads and other wireless devices and in [00:05:00] particular, what we do on those devices, whether it be the traditional download of music to the now the more so demands of actually doing video on demand and streaming over those devices.

So, some of the best space for stability for broadcast of audio and video was the spectrum space that the television broadcasters occupied and in doing so, what the FCC did was they consolidated the broadcasters down to a tighter [00:05:30] area in that spectrum space and then repurposed that, uh, space that they acquire, or they acquired back from the broadcasters, out to the wireless companies.

The way they did this is they did it through a series of rounds of a reverse auction and then forward auction. Reverse auction with the broadcasters in which they showed you the greatest price that you could possibly get for your spectrum space. And then with each round that went by, that price was [00:06:00] declining a little bit till they reached an equilibrium where there was no, uh, interference among the broadcast stations, um, in the marketplace anymore for a reassigned spectrum location.

They then went and, uh, on a forward side, it went to the interested wireless companies to make sure that they would get the amount of money that they needed from the wireless companies to satisfy what they had just committed to the uh, [00:06:30] broadcasters. This went on for, I think, four or five rounds if I remember.

And, uh, at the end of the day, we were successful in competing in the auction and, uh, ended up with a pile of money in our laps, literally overnight, in our bank account that we now had to do something with. So, David, what was the first step you took when you knew the money was coming in?

So, the board got together and tried to figure out [00:07:00] exactly what we would do. The board decided that the finance and investments committee would, um, uh, or really at the time, it was the finance committee, because we didn't have any investments, uh, that they would sit down and shepherd the process through.

And it was suggested that we, by one of the board members, that we hire an advisor to assist us with an RFP process to select ultimately a financial advisor to work with us [00:07:30] on putting that money to work for our future. So that's how you came to Fiducient. We know that you did work with a research consultant.

Did you consider issuing an RFP and doing that search for an investment consultant on your own? And if so, why might the committee have dismissed that idea? We did. And, you know, ultimately, at the end of the day, the board was 18 person board at the time. And. I have a friend. You [00:08:00] have a friend. They have a friend.

We all have friends that do this. So, I think, specifically investment advisory work. So, I think to make the process more transparent, it was in our best interests to hire a third-party consultant to assist us in picking the best financial advisor for us to move forward with. David, can you describe what that RFP and interview process looked like?

So, it was essentially [00:08:30] a two-pronged process. All of our quote unquote friends, as well as some other selected individuals, uh, firms, were invited to a pre-RFP questionnaire process. During that process, our consultant was able to call out who he felt would be the most serious ones.

And that would bring the best qualifications to the table to actually put together a proposal for us [00:09:00] to review. Um, after that, the proposals were submitted. And we essentially picked five firms to present to us.

David, myself and Devon and our colleagues, we obviously serve hundreds of nonprofits collectively, endowments, foundations, and such, but many of us, we sit on the other [00:09:30] side, your side of the table. For example, I'm vice chair of the investment committee at Catholic Charities in Chicago. And I know fit becomes a really important criterion as you're working through this process.

But what were some of the qualities or considerations that were most important to your committee as you searched for an investment consulting firm? Ooh. I would have to say probably one of the greatest ones was just the independence that the advisory firms had as it [00:10:00] related to investments that were going on, that there was a pretty strong corporate veil between advisory services in any investing activities that would go on within the organization as well.

So, David, having not had an investment committee in place prior to receiving these funds, how did you go about assembling one? What were some of the things that you thought about? So, we are very fortunate that our finance committee was made up of, uh, several [00:10:30] individuals that had quite a bit of investment experience themselves.

Our treasurer, our former treasurer, it was, is the assistant treasurer for CVS health. So she was, is quite familiar with the investment activity as she does a lot of investing on her own for CVS on a daily basis. And several of the other finance committee members, all had some extensive, uh, either personal [00:11:00] investment experience or investment experience with their companies that they worked for as well.

So it's fairly easy to have a committee that was understanding of what was needed for the organization as well as what to decipher from the prospective bidders, uh, so that we would be working with the best group going forward as we made our decision. And one of the things that we [00:11:30] try to do with this podcast is to share advice and practical guidance with other leaders of nonprofit organizations.

So, now that you have the benefit of hindsight having gone through the process of assembling an investment committee from the ground up, what do you think are some of the most important considerations that you might share with other nonprofit leaders regarding building a successful investment committee or putting governance structures in place to ensure success into the future? [00:12:00]

I think the overall, uh, governance structure of your board is the most important thing. We've been through, I mean, we're constantly reviewing the governance charter and just our duties and responsibilities with the board, particularly since we're sitting on a large investment portfolio. It really magnifies your fiduciary responsibility all the more.

So that being said, what we do is we make sure that we're looking at our candidates' [00:12:30] qualifications for board members and that we are picking candidates that fill the holes that we have across the entire spectrum of experience on our board. And one of those obviously is clearly making sure that we have a sound finance and investments committee membership that covers us both from the investment's perspective, but from the audit perspective as well.

And just a good general accounting background so that the overall governance of and fiduciary [00:13:00] responsibility of the board is, uh, is met. So, David, this is helpful. Essentially, you've taken us through tens of millions of dollars land in your nonprofit's lap, if you will.

And now you've used a thoughtful process to create an investment committee. Let's now transition to the investment side of things. And we're curious what some of the considerations are that you and the investment committee took into account when it came to putting the money to work.

Overall, and then maybe, first off, we talk about market timing, [00:13:30] transitioning from cash actually to the investment strategy. Yeah. So, I mean, obviously, we, um, on the advice of you guys, we thought it best to get in the market over a period of time and not necessarily put all of our eggs in one basket at one period of time, first and foremost.

Our overall horizon and the objectives of the portfolio is to have a diversified portfolio, mixture of stocks and bonds and alternative investments. We have a [00:14:00] long-term view of the portfolio. Um, and we've made some adjustments based on our strategic plan to position a portion of the portfolio to a shorter term need so that we can take advantage of market movement and stability of those investments while we're executing on the objectives of our strategic plan.

So it sounds like a lot of intentionality and that's always helpful, sort of creating a roadmap, if you will. Maybe you can [00:14:30] take us inside on, you know, if there were any debates or robust discussions around sort of the risk-return profile that you would adopt?

And that could mean a lot of different things for a lot of different nonprofit organizations, but what was the mindset and how challenging was it to get to an overall asset allocation strategy? And then, maybe more specifically, you mentioned alternatives. What was it like to take a step into that space?

[00:15:00] So I think overall the board and the investment, finance and investments committee has a pretty conservative view on how they wanted to see this sum of money invested. So, it's fairly easy to move to the asset

allocation strategy that we've adopted and also to take, obviously some risk into alternative investments, but yet making sure that those risks were calculated and that they [00:15:30] were well as best as they can be.

And, um, that we weren't putting too much in that way, in that area of the overall mix of the portfolio. Our treasurer at the time was very instrumental in guiding us through this with her experience and knowledge that she has, helped us talk through any questions that any of the, um, the committee members would have had, or any of the board members would have had also in a [00:16:00] clear and concise way to make sure that, at the end of the day, everybody was all on the same page.

Again, it just sounds like a deliberate approach, which certainly helps not only at the onset, but as markets do what they do, go up and down, and committee members change and transition over time, it's really, I can't emphasize enough how important it is to have that solid foundation, do that three levers, inflows outflows, required return, and then ultimately [00:16:30] document.

And on an ongoing basis, be able to refer back to why you've set up the strategy in a certain way. That's just terrific, David. Yeah. I mean, it was a very good process and, uh, it was actually a pretty smooth process. From start to finish, I don't think it took more than a two and a half, three months. So, David, one of the perhaps unique things that Rhode Island PBS was faced with is that you didn't have to draw from the asset pool for the first several years.

So [00:17:00] you were able to take the time to let the Corpus grow. And I know that we, along with the investment committee just within the past six months or so have had a lot of robust discussions about spending policy and ultimately what the spending would be from the endowment on a go-forward basis. So, can you share with the listeners what some of the considerations were, what those discussions were like among the investment committee, and where you ultimately ended up in terms of spending policy? [00:17:30]

Yeah, sure. As I said, or I don't think we mentioned that, uh, we basically came into 94 and a half million dollars overnight. We took the 80 million and agreed that's what we would invest, uh, in a long-term and that we would go out to the RFP process to find someone to assist us with that.

The other 14 and a half million, we utilized trading short-term treasuries that our financial institution, um, and basically did a [00:18:00] lot of deferred maintenance to the building. We had recently adopted a new strategic plan with this money coming to us in mind and started executing on that. Rehiring employees that we had let go in times that were a little leaner for us and just rebuilding the whole foundation of the organization so that we can move forward in a meaningful way that will serve the community.

And that we expected would last us, the 14 and a half, a few years. [00:18:30] I think it lasted, I think almost two and a half years if I stand corrected, if I remember correctly. And obviously, that did give us the opportunity to put that \$80 million to work without touching any of it. And ultimately, when we were ready to need to draw off of that initial investment to execute on it and sustain the operations going forward.

Rather robustly discussed a spend policy that we would, um, [00:19:00] incorporate into our investment. Uh, I'm sorry, a spend rate that we would incorporate into our investment policy and that was at four and a half percent of the trailing 12 quarters as of March 31st of the calendar year.

And that gives us the ability to be able to predict what our spend rate will be for the following fiscal year, which begins on July 1st, being a June 30 fiscal year end. I'm just curious how you and other leaders at the organization, how it impacts how Rhode Island PBS might operate, how you might be able to take on a risk or not take on a risk.

Just how you think about advancing your mission, given that you have the substantial sum in an endowment. So, we've concluded just a year ago, a little more than a year ago, a revised strategic plan, [00:20:00] which is available on our website, ripbs.org for those interested in seeing it, that is rather aggressive.

And instead of timing it into a period of three, four or five years, we are now terming it as a strategic roadmap for the way that we're going to operate the organization going forward. Albeit there will be some tweaks as we go forward, for adjustments for what we've learned and what we feel that we need to be responsive with [00:20:30] in terms of delivering other services to the community.

So, we have pretty much an idea of what we want to do going forward. And we pretty much have a decent price tag as to how much that's going to cost. So this affords us the predictability of what we need to draw from the investment portfolio to be successful with the strategic plan.

However, that said, being in the television business, specifically the public [00:21:00] television business, there are opportunities that come along on a daily basis for us to invest in, you know, content. And, uh, there may be, um, you know, then the next great program that comes up forward that we're presented with to be an investor that the board may want to take a look at and being a, you know, participating in it.

And this portfolio gives us the ability to do that, that we could decide that if we want to take [00:21:30] a million dollars and invest in the next Downton Abbey, so to say, uh, that we have the ability to do that. It's there for us, but it's also there for the community and clearly any other opportunities that we see come along in the community that we can participate in to better Providence, new Bedford television market, which is basically Rhode Island and Southeastern Massachusetts.

We will investigate them and respond accordingly. Well, David, thanks [00:22:00] for sharing these insights. I'm curious in these days with various challenges for any organization and some in particular for a non-profit organization, anything else you'd share with leaders, stakeholders involved with nonprofits, that we haven't covered yet?

No, I think from an investment perspective and from a governance perspective, we've pretty much touched upon the key points. It's clearly a challenge sometimes if you don't have the [00:22:30] type of resources that we have, but it's also becomes a challenge when you do have the resources, that you shepherd them and you guide them forward in a responsible, meaningful way, and that you pay attention to your governance structure and that you adhere to it just so that you are doing so. Fulfilling your fiduciary responsibility to the best of your abilities.

That's right. Having that disciplined approach and a roadmap, as you said, you have a roadmap for your strategic vision. You have a roadmap [00:23:00] for the governance of the board. I think that's really helpful. So before we wrap up, David, we always like to learn something on a personal level about the guests that we have.

So can you share with us, what is your idea of a perfect Saturday? Perfect Saturday. Well, obviously it'll be a summer Saturday. I would, uh, arrive at the golf course probably no later than for an 8, 8:30 teatime, uh, play 18 holes. Come in, [00:23:30] have a little lunch, then I would probably go back out again for another 18 in the afternoon, a couple of beers afterwards, and then out for a nice dinner.

Wow. 36 holes of golf in one day, you really are a golf enthusiast, I guess. I'd like to say that that would be a dream, but it's actually reality, that I failed many times, Devon. Well, you live an enviable life. I'm glad that you're able to spend time [00:24:00] doing what you love and we are so appreciative of your time and the expertise that you shared with us.

Thank you for joining us. You shared, if folks want to learn more about Rhode Island PBS, including seeing the strategic plan, they can go to our ripbs.org, and really we are so appreciative of the time that you shared with us. Thank you. My pleasure, Devon and Bob. I was very happy to be a guest on your show.

David, thanks so much. It was a lot of fun and really appreciate your insights. I [00:24:30] also just want to remind our listeners that at Fiducient, we're constantly updating our website with fresh content, a lot of relevant, timely market information. We welcome you to check out the insights section of our website at fiducientadvisors.com.

You'll get the latest articles, view a number of videos, and even access to past episodes of this podcast. 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 [00:25:00] the Nonprofit Investment Stewards podcast.

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Always seek the advice of qualified professionals familiar with your unique circumstances. [00:25:30]