ACG Insights: Best Practices for Investment Committees

Introduction

Over our three decades of experience working with investment committees, Atlanta Consulting Group has observed and facilitated hundreds of client committee meetings. As a result of these observations and interactions, we have been privy to a wide spectrum of different committee practices. While no two committees are alike, and we recognize the differences inherent in the governance of overseeing employer-sponsored retirement plans vs. endowments or foundations, there are some common best practices that apply to many investment committees.

The Purpose of an Investment Committee

An investment committee's primary purpose is to accept governance responsibility for investments, primarily setting policies and providing oversight (efficient and effective implementation). Plan sponsors are required to uphold the standards set forth within the Employee Retirement Income Security Act (ERISA) while nonprofit and charitable organizations are subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). However, both laws provide minimal guidance for establishing procedures and practices for carrying out fiduciary responsibilities. Generally, it is left up to the institutions to interpret the rules and apply whatever resources available to ensure their organization is in full compliance.

Many of our clients' investment committees provide investment oversight and share in the fiduciary responsibilities of managing the institution's assets. The existence of an investment committee demonstrates a commitment to follow formalized procedures and practices to ensure strict compliance with fiduciary standards. Following these best practices can help ensure that your organization meets accountability, objectivity, and due diligence requirements.

Creating an Effective Investment Committee

With an increasingly bright spotlight on fiduciary responsibility, investment committees have a difficult task in today's market environment. Committee duties fall along a wide spectrum depending on each organization. Some committees are involved in everything from drafting the Investment Policy Statement to asset allocation decisions, manager evaluation, and review of policy guidelines, while others focus more on the mission of the organization and fundraising. Despite the heterogeneous nature of investment committees among different organizations, we've summarized some key points below that we believe are hallmarks of creating successful investment committees;

- ***Importance of diverse backgrounds –*** Creating a committee that draws members from different industries and walks of life can help to avoid "group think"
- ***Smaller is usually better than larger –*** While it is important to get buy-in from a wide range of stakeholders in the governance and operation of investment programs, very large committees can often be less efficient and less engaged
- ***Democratic process –*** Fostering dialogue and allowing committee members a voice on important issues is preferable to committees that are dominated by one or two of the more vocal members
- ***Balance of existing and new members –*** Longer tenured committee members can add to institutional memory of the organization while new members can challenge status quo and bring new ideas
- ***Avoid conflicts of interest –*** There should be a mechanism, for example, for committee members with ties to investment managers to recuse themselves from discussions or votes involving their firm

Getting the Most out of Investment Committee Meetings

Source: Mitch Teemly

The majority of committee members are often volunteers and their time and expertise should be valued and put to the best use possible. As such, creating efficient investment committee meetings is key.

A few ideas that we have found to be successful with our client base are listed below;

- ***Encourage regular attendance –*** It's important to have a quorum whenever possible. In our experience, setting meeting dates well in advance can help improve attendance significantly
- ***New Committee member education –*** Setting aside time to get new committee members up to speed can make them additive to the group faster. Delegating this task to a member of the committee or taking advantage of consultants who provide this service can be helpful

- ***Send agenda and meeting materials in advance –*** While no one likes homework, getting materials in advance allows committee members to be more prepared during the limited timeframe of often time constrained meetings
- ***Commitment to continuing education –*** Setting aside time for education on topics related to the management of the assets can increase committee engagement and effectiveness. The financial arena is ever-changing and even the most astute and sophisticated committee members could benefit from education on new trends and strategies
- ***Importance of notes / meeting minutes –*** Document the committee's fiduciary process
- ***Organization / time management –*** Make the best use of committee member's time
- ***Leverage emerging technologies –*** Take advantage of online reporting tools and archives to preserve documents, minutes, etc.

Importance of an Investment Policy Statement

Similar to the adage in Real Estate of "location, location, location," in our view committees should follow the principles of "Investment Policy Statement, Investment Policy Statement, Investment Policy Statement."

A simple and realistic Investment Policy Statement (IPS) is the most effective way to define the purpose for a pool of assets. Another benefit of an effective IPS is the ability to provide an objective framework for making decisions and removing emotions. After all, committees are made up of individuals who can be subject to various behavioral biases. A strong IPS can help remove emotion from the process and allow for more effective rational decision making. In addition, the IPS should be viewed as a dynamic document which is reviewed periodically and updated with any changes to reflect the most up-to-date views of the organization.

In our experience, a successful IPS typically has the following components;

- ***Purpose & Objectives –*** Summary of the committee's strategy
- ***Responsibilities –*** Clearly defined roles for the committee, staff, consultant, and managers
- ***Restrictions –*** Constraints around asset classes, investment, liquidity, vehicle, etc.
- ***Asset Allocation & Risk Tolerance –*** Asset class minimums and maximums, risk procedures
- ***Selection & Retention Criteria –*** Guidelines for selection & retention of investment managers
- ***Performance Objectives –*** Setting expectations for investment managers and total portfolio performance
- ***Control Procedures –*** Watch / Caution Status for underlying investments

Summary

This brief ACG Insight reflects our years of experience as an investment consultant working with a wide array of investment committees and clients. Over the last three decades, we have seen the good, the bad, and the ugly. Hopefully, this Insight can help committees find the make-up and governance structure that gives them the best chance to meet their investment goals and objectives and ultimately furthers the mission of the organization.

Many of Atlanta Consulting Group's employees have taken the time to earn the professional designation of Accredited Investment Fiduciary® (AIF®). This training includes training on the Self-Assessment of Fiduciary

Excellence (SAFE) which is provided to assist Investment Stewards in analyzing how well their portfolio meets the Global Standard of Fiduciary Excellence defined by the Center for Fiduciary Studies. This assessment focuses on four key steps:

1. Organize
2. Formalize
3. Implement
4. Monitor

Additionally, we've attached Fi360's "Periodic Table of Global Fiduciary Practices for Investment Stewards". If you would like to discuss any of these topics further, the team at Atlanta Consulting Group would be happy to have a dialogue. Please feel free to reach out to the Atlanta Consulting Group and use us as a resource on this topic or any other.

Fi360

PERIODIC TABLE
of GLOBAL FIDUCIARY PRACTICES
for INVESTMENT STEWARDS

PRACTICE 1.1
The Investment Steward demonstrates an awareness of fiduciary duties and responsibilities.

PRACTICE 1.2
Investments and investment services under the oversight of the Investment Steward are consistent with applicable governing documents.

PRACTICE 1.3
The roles and responsibilities of all involved parties (fiduciaries and non-fiduciaries) are defined and documented.

PRACTICE 1.4
The Investment Steward identifies conflicts of interest and addresses conflicts in a manner consistent with the duty of loyalty.

PRACTICE 1.5
The Investment Steward requires agreements with service providers to be in writing and consistent with fiduciary standards of care.

PRACTICE 1.6
Portfolio assets are protected from theft and embezzlement.

PRACTICE 2.1
An investment time horizon has been identified for each investment portfolio.

PRACTICE 2.2
An appropriate risk level has been identified for the portfolio.

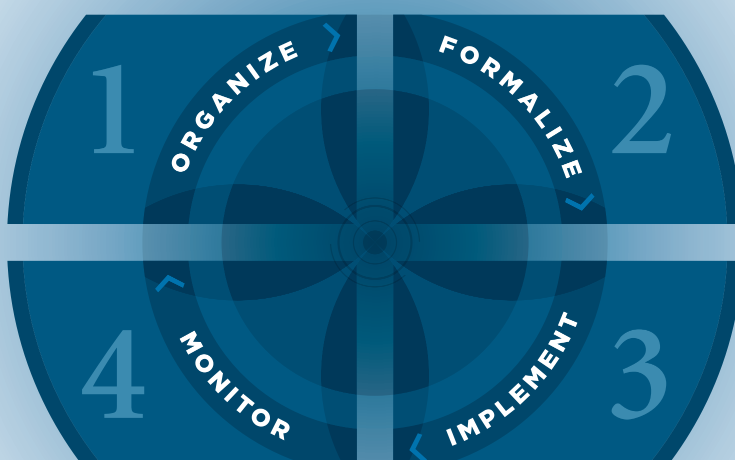
PRACTICE 2.3
An expected return to meet each investment objective for the portfolio has been identified.

PRACTICE 2.4
Selected asset classes are consistent with the portfolio's time horizon and risk and return objectives.

PRACTICE 2.5
Selected asset classes are consistent with implementation and monitoring constraints.

PRACTICE 2.6
The investment policy statement contains sufficient detail to define, implement, and monitor the portfolio's investment strategy.

PRACTICE 2.7
When socially responsible investment strategies are elected, the strategies are structured appropriately.



PRACTICE 3.1
A reasonable due diligence process is followed to select each service provider in a manner consistent with obligations of care.

PRACTICE 3.2
When statutory or regulatory investment safe harbors are elected, each investment strategy is implemented in compliance with the applicable provisions.

PRACTICE 3.3
Decisions regarding investment strategies and types of investments are documented and made in accordance with fiduciary obligations of care.

PRACTICE 4.1
Periodic reports are used to compare investment performance against appropriate index, peer group, and investment policy statement objectives.

PRACTICE 4.2
Periodic reviews are made of qualitative and/or organizational changes of Investment Advisors, Investment Managers, and other service providers.

PRACTICE 4.3
Control procedures are in place to periodically review policies for trading practices and proxy voting.

PRACTICE 4.4
Periodic reviews are conducted to ensure that investment-related fees, compensation, and expenses are fair and reasonable for the services provided.

PRACTICE 4.5
There is a process to periodically review the Steward's effectiveness in meeting its fiduciary responsibilities.

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