

INVESTMENT COMMITTEE BEST PRACTICES: RUNNING AN EFFECTIVE MEETING

Successful meetings are the key determinant of a strong Investment Committee. Much of the action for an Investment Committee takes place during these meetings. Therefore, running them to ensure proper decision-making is completed efficiently is fundamental to the success of the committee.

The responsibility for meetings typically falls on the committee chair, who is usually supported by staff. It is best to schedule meetings at a regular cadence so staff, committee members and presenters can plan accordingly. Often, the meetings are scheduled right before the full board meeting where the chair can give a brief update and call for resolutions when needed.

Much of the work is done prior to the meeting, which should be steered with a well-defined agenda. The agenda is typically set by the committee chair and should include a clear objective for each item. In building the agenda, the chair should review unresolved issues from the prior meeting and past records to make sure all important items are included. It is best practice to put the most important agenda items early in the meeting to ensure appropriate time is spent on those items with the highest impact. These tend to be discussions around spending, strategic asset allocation, and operational needs.

It is essential for the committee chair to keep everyone focused on the agenda. Without an effective committee chair, members' emotions usually take hold, and personal viewpoints, along with their biases, take over. Once this starts, rational discourse takes a back seat, leading to arguments that could derail the conversation and ultimately undermine the productivity of the meeting and its discussions. Most boards are made of volunteers, and it is difficult to add special meetings to resolve issues. Without proper structure, debates can continue for years and the default is typically maintaining status quo.

The chair should specify an amount of time for each item so that all have the proper allocation for resolution and the meeting comes to a timely close. We find that the most effective chairs allocate proper time for debate, close the debate, and call for a vote. Timing a person's comments ensures members are prepared when they have the floor and also limits the time of board members who tend to have the loudest voice. One effective chair made a point of recognizing each trustee for a comment. In one debate on allocating to private debt or private equity, there was momentum against private debt until one quiet member was recognized. As a former banker, this member had some unique insight that led to

The best performing Investment Committees recognize that their primary role is one of governance, not investing.

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a board vote in favor. Another effective practice by a chair is to give the final word to one of the members before going to a vote. We have seen board members lobby to have this last word, hoping to influence the group to a certain opinion so it is important for the chair to select someone carefully. Occasionally, the chair will recognize the Outsourced Chief Investment Officer (OCIO) if discussions get off-point. The OCIO should be prepared with a firm opinion on important issues.

For efficiency, we recommend a pre-meeting with the chair, staff and OCIO team to make sure all parties are aligned with the goals of the discussions, as well as preparing supporting materials for dissemination. A draft of the agenda and presentation materials are typically reviewed at this meeting. Staff can also discuss organizational needs and cash movement at a micro-level. The chair then makes the final decision on the content and steers the OCIO on any issues voiced by the board that need to be addressed.

Example of Quarterly and Annual Investment Committee Agendas

Quarterly Investment Committee Agenda Items
Approve Prior Meeting Minutes
Review Top Agenda Items For Current Meeting
Portfolio Review Are returns within the long-term goals and risk tolerance of your organization?
Asset Allocation and Rebalancing Review Is your manager staying within the specific targets and ranges specified in your IPS?
Educational Component / Rotating In-Depth Topic
Open Forum for Members to Discuss Topics of Concern
Finalize and Review Agreements on Open Items
Identify and Note any Open Agenda Items for Subsequent Meetings
Adjourn

Annual Investment Committee Agenda Items
Approve Investment Committee Members
Reaffirm Long-Term Goals and Objectives
Review Investment Policy Statement (IPS) Any changes to the organization's objectives or long-term goals? Any changes to asset allocation mix to optimize the return for your level of risk? Any changes to asset mix and major asset class outlook? Any changes to outlook for risk of both the organization and investment mix?
Spending Policy Review and Approval
Full Cost Review of Investment Portfolio
Budget Outlook Impact on Investable Assets
Adjourn

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Once you join an Investment Committee, it is your job as a new member to review past meeting minutes, along with the Investment Policy Statement, and to ask questions to the committee chair to share institutional knowledge that may not be outlined in the documents.

Committee members are responsible for:

- Attending every meeting
- Preparing prior to meetings by reviewing all materials supplied and understanding the decisions that will be asked of them during the meeting
- Looking to be an active participant in the meeting and being open to new ideas
- Putting the organization's interests ahead of personal biases and doing what they feel is best for the organization's long-term success

The worst thing a committee member can do during a meeting is to sit in silence. Not contributing to the discussion and voting along with stronger personalities to minimize conflict generates groupthink, conforming to the consensus without critical reasoning or evaluation of the consequences or alternatives. The chair can engage the group to encourage critical thinking, but it also helps to have a diverse committee with different backgrounds who can offer unique insights and perspectives from their lives, knowledge, experience and particular area of expertise.

To be an effective Investment Committee, you need to make decisions. It is fine that the committee may not come to a unanimous decision. When there is a difference of opinion on a topic, committees tend to push important decisions off to future dates. Inevitably, these items never get decided upon, creating the same discussion, frustration and arguments in future meetings. We recommend all items go to a vote, even if there are dissenters, to get the important decisions made.

Detailed meeting minutes should be compiled by a nonparticipant. Since the nonparticipant may not have the expertise to capture the important points, often the OCIO will provide notes and review the minutes to ensure relevant data is captured. It is a best practice to release a draft of the minutes for review so that members can provide feedback or request for more details to be added. Minutes usually cover the agenda items, important discussion points, questions and objections, and final decisions. Typical meetings are not recorded, so for governance, it is a best practice for the committee to approve the meeting minutes.

Effective committee governance and decision-making are pivotal within a successful Investment Committee. Boards that, through their Investment Committee, adopt a focus on governance first and foremost generally see better portfolio performance.

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