5 Things All New Investment Committee Members Should Know

Executive Summary

- By joining an Investment Committee, you are making the decision to contribute to the oversight and governance of long-term institutional capital.
- While all Committees operate differently, there are common themes that can guide the questions you may want to consider as you prepare to step into this new role.
- These key questions include: What is the role of the Investment Committee? How does the Committee define success? How is the investment strategy implemented? How does the Committee fulfill its oversight responsibilities? What makes an Investment Committee successful over time?
- TIFF understands the importance of Investment Committee membership in supporting the missions of non-profits and believes that a mindset of continual learning will help you to become an effective and impactful member of your new Investment Committee.

Joining an Investment Committee is an exciting, albeit intimidating, undertaking. On the one hand, this decision opens the door to supporting an organization whose mission you feel strongly about. On the other hand, you are becoming involved in the governance of a pool of assets which, up to this point, is likely to be unfamiliar to you. It is important to remember that Investment Committee members are overseeing institutional capital, not personal assets, and the governance process must be treated as such. Further, every Committee functions differently in terms of objectives, role and responsibilities, processes, and overall missions, with many Committees working with external partners such as outsourced CIOs (OCIOs). Despite the inherent differences across Committees, we have laid out five key questions for everyone to answer as they begin their Investment Committee member journey.

5 Key Questions for New Investment Committee

Members

1. **What is the Role of the Investment Committee?** Your job as a member of an Investment Committee is to be a fiduciary of the organization and provide governance and oversight, not to be a portfolio manager. Key responsibilities for Investment Committee members include setting high-level objectives for the endowment, approving and ensuring compliance with the Investment Policy Statement, and monitoring outcomes for the portfolio to ensure they meet the organization's ongoing needs. The Committee may have a relationship with an external investment advisor, which may have a discretionary approach, where the external advisor maintains control over investment decision making, or an advisory approach, where the Committee has a say in some or all portfolio decisions. As a newcomer, it is important to understand where decision making sits and what voting processes entail, where applicable.
2. **How Does the Committee Define Success?** To understand the goals and uses for their endowment funds, new Committee members should read key documents (e.g., Investment Policy Statement, Spending Policy) and understand the role that the endowment plays in the financials of the institution. For high-level objectives, is the stated long-term goal to simply maintain the pool of capital's inflation-adjusted principal or does the organization have growth-oriented goals? For impact on the institution's financials, what is the annual spending rate from the portfolio and how is this expenditure actually allocated (e.g., payroll, grant making, scholarship funding)? To what extent is the organization's budget reliant on the endowment? A high budgetary reliance on the endowment can, for example, constrain the illiquidity and risk-taking ability of the funds. Should the endowment not be able to meet the stated level of spending, such as in an extreme market event, are there any resulting organizational risks? Understanding the above will help to ensure that the endowment's investment strategy is aligned with the organization's overall goals and sensitivities.
3. **How Is the Investment Strategy Implemented?** Once you understand the goals and objectives, the next step is to familiarize yourself with the investment strategy chosen to support the endowment's needs. First, you will want to identify the endowment's risk profile (e.g., equivalent to a 70/30 equity/bond index) and determine whether this is the appropriate level of risk for the organization's long-term goals and constraints. Within this risk profile, what is the asset allocation strategy for the endowment? Does it take a traditional (i.e., stock and bond) approach or an alternatives-heavy approach (i.e., emphasis on hedge funds, private markets, and other alternative assets)? Does the endowment prefer active investing or passive investing? Is the endowment highly diversified or does it prefer to make bigger "bets"? What is the endowment's exposure to private markets? Appreciating

the answers to these questions is vital for managing expectations, such as whether to expect significant performance deviation relative to a benchmark, how much capital is readily available for withdrawal if the organization has a one-off, urgent need, or the level of drawdown to expect if there is an equity market correction.

4. **How Does the Committee Fulfill Its Oversight Responsibilities?** Fulfilling the oversight responsibilities of a Committee member requires ongoing monitoring and, at the highest level, ensuring that the Investment Policy Statement is being followed. On a regular basis, Committee members should evaluate whether the endowment is allocated in such a manner that meets its goals and objectives and complies with its stated constraints. As you think about portfolio results, it is important to consider what constitutes investment success for the organization. This could be results relative to a corresponding benchmark, such as a 70/30 equity/bond index, or relative to an inflation + spending hurdle. Over the longer term (TIFF recommends a five- to 10-year period), portfolio performance should be evaluated to determine whether it has proven appropriate in terms of both level and stability of the returns needed to support the current and future needs of the organization.
5. **What Makes an Investment Committee Effective Over Time?** As the name suggests, Investment Committees function as a team, so ongoing collaboration is important. It is essential to be respectful of this collective decision-making dynamic and avoid letting any single voice overpower the broader process. A successful Investment Committee also has role clarity between parties, including within the Committee, such as the specific role of the Committee Chairperson relative to other voting members, and outside of the Committee, such as whether investment decision making lives with an OCIO. Further, Committee membership is not meant to be perpetual, so ensuring continuity in process and goals is important as membership inevitably turns over. Finally, financial markets are volatile. A successful Investment Committee has a strong willingness and ability to stay the course and remain disciplined in difficult markets, thereby avoiding material changes in long-term strategy in response to shorter-term market signals.

Conclusion

Given TIFF's history of supporting endowed non-profits over the past 35 years, we understand just how important Investment Committee membership is in supporting the mission and goals for non-profits that work for the betterment of society. We have made it our mission at TIFF to support Investment Committees across market cycles and help them to focus on governance for their various organizations. Answering the questions above will offer you a solid starting point toward becoming an effective and impactful member of your new Investment Committee. Asking the right questions matters more than having all of the answers and we encourage you to be open to continual learning and growth as you begin

your new role as a steward of long-term institutional capital.

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