

Reflections on Investment Committee Governance

June 2009

A strong investment committee is one of the most valuable assets an organization can have. Their decisions are worth millions to the operating budget and in some cases can affect the health and sustainability of the organization. Yet group decision making is complex. It can be hugely successful, drawing on the experience of its members to determine areas of opportunity as well as risk. But if not managed well, group dynamics can result in poor decisions.

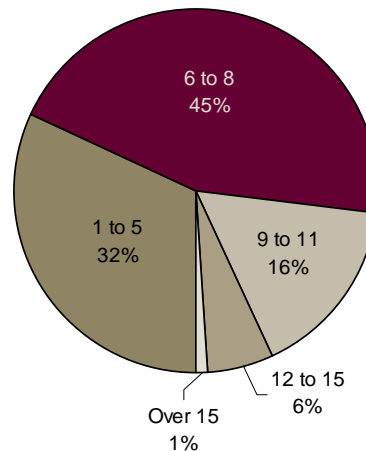
To learn more about the attributes of successful committees, Stratford surveyed a broad cross section of institutional investors on a number of factors relating to the structure and effectiveness of their investments committees. More than 120 organizations responded, with some respondents overseeing more than one type of plan. The survey included endowments, foundations, defined benefit plans, defined contribution plans, operating funds and public funds.

Some results were predictable. Other results were less predictable, clearly indicating the complexity of group decision making. And interestingly, we found that a survey cannot always pick up on some of the more subtle factors that in our experience help drive success.

Size and Cohesiveness

The vast majority of investment committees consist of fewer than eight members. About 45% of committees have 6 to 8 members while about one third have five or fewer members. Defined benefit plans, defined contribution plans, and foundations tend to have the smallest committees while endowment funds tend to have the largest committees. These results are not surprising as endowments are one of the few organizations that include community members, who do not work for the organization.

Investment Committee Size



In our experience, a careful balance needs to be achieved between having too few and too many members. Too few members can present issues with achieving a quorum at meetings. On the other hand, with large committees, members may be less engaged, believing their presence will not be missed if they skip a meeting. This can result in having to revisit decisions, as well as a decision making process that shifts depending on the meeting's attendees. This last point is one of the most significant problems faced by large committees. If members have different viewpoints and attendance is inconsistent, it can be challenging to achieve consensus and move forward in a single direction. Flip-flopping can occur that delays decisions and can prove costly.

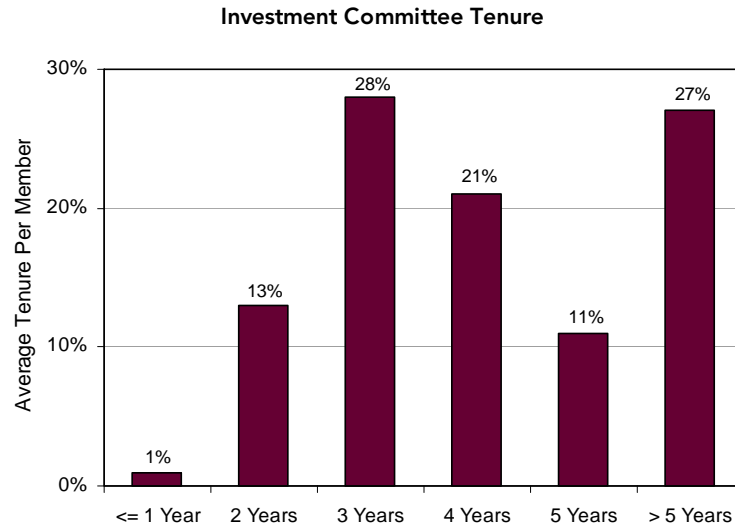
The survey asked whether committee members shared a similar investment philosophy. Interestingly, the results were split nearly equally -- 54% of respondents indicated that committee members shared like philosophies while 46% indicated that members did not. Smaller committees had more cohesive views. The vast majority of members are *very interested* (76%) in the investment programs they oversee. Another 23% of members are *interested* in the investment programs they oversee.

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Tenure

Committee member tenure was surprisingly long, with an average tenure of more than 3.5 years. More than 85% of members served on their respective committees for three years or more. And, approximately 38% of members had served on their committees for five years or more. Continuity of membership is important to ensuring institutional memory and that members have an interest in the long term results of the fund. Modest turnover, however, encourages new ideas and challenges stale thinking.



Responsibility for the orientation of new committee members typically falls to the committee chair, staff members, or both. For committees of five people or less, the committee chair most often conducts the orientation, while for larger committees, staff members are typically responsible for the orientation. Regardless of who has responsibility, this is an important step that should be encouraged.

Table 1: Orientation of New Committee Members

Responsibility for Orientation	Committee Size					Response Totals
	0-5	6-8	9-11	12-15	15+	
Committee Chair	57%	31%	41%	56%	50%	43%
Staff Members	37%	66%	56%	44%	50%	54%
Consultant	8%	9%	22%	11%	0%	11%
Other	4%	4%	0%	0%	0%	3%
None Provided	18%	10%	7%	22%	0%	13%

Note: More than one response allowed.

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Committee Member Background

The majority of committee members (63%) are selected for their finance or investment knowledge and experience. A small percentage of the members are chosen because they are executives within the organization (4%) or community leaders (13%). The rest of the members have no special qualifications.

Survey respondents noted that one of the challenges they face is getting more members on their committees who have investment experience and, in particular, alternatives investment experience. In practice we note that committees with more investment experience often deal with conflicting views better and make decisions faster. They also are more likely to stay focused on asset allocation issues, rather than manager issues, which drive returns long term.

Investment Committee Effectiveness

The time required to review and decide on an investment recommendation depended on the recommendation. In general, however, decisions were typically dealt with in one or two meetings. Committees with 12 or more members tended to need two meetings to make decisions while there were no discernible differences in the decision making time frame for smaller committees. Once a decision was made, it was implemented within one month 54% of the time and within three months 31% of the time.

Fifty percent of survey respondents indicated that their committees were very effective, 47% somewhat effective and 3% not effective at all. Additionally, 92% of respondents believed their investment program to be successful. The few that did not believe their programs to be successful tended to have smaller sized committees.

Responses to the question, "What is one change you would make to your Investment Committee (if you could)?" resulted in a number of different answers. The most common, as mentioned earlier, was to have more committee members with investment experience, especially alternatives investment experience. A second frequent response was for more nimble decision making, either by delegating more authority to staff or having more frequent meetings.

Summary

Common traits among investment committees are:

- Most have eight or fewer members.
- Member tenure averages 3.5 years.
- Smaller committees more often have similar investment philosophies.
- Most investment committee members are very interested in the investment programs they oversee.
- Most committee members are selected for their investment knowledge and experience.

We have worked with many different types of investment committees over the years. The common traits outlined above truly help drive success. But there are a few things we've learned from experience that are difficult to capture in a survey. These characteristics also strongly contribute to the success of an investment committee and the program they oversee.

- Members who are able to separate their personal investment philosophy from the investment philosophy that would best serve the institution,
- A common philosophy that guides the investment strategy over time,
- A strong chairperson for committees with more than eight members,
- A structure that keeps committee members engaged, regardless of size.

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Summary (continued)

Overall survey respondents believe their committees to be very effective, but there are two issues with which most still struggle. The first is getting more members with investment experience. The second is a need for more nimble decision making. In our experience, getting more investment expertise on a committee enables more nimble decision making. Meetings stay focused and investment ideas can be evaluated more quickly. Nonetheless, we believe this will always be a challenge, particularly for those organizations that do not draw members from outside their own organizations.
