Maximizing Your Effectiveness on Investment Committees

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Investment committees of institutional foundations or endowments and the portfolios they manage can vary widely in the level of sophistication and expertise of committee members. Some investment committees include experienced investors making decisions on complicated portfolios overseen by knowledgeable staff. Other investment committees comprise volunteer board members who lack investment proficiency and manage small endowments with hardly any or no staff.

Despite these differences, there are helpful principles that all investment committees can use to create successful dynamics. An investment committee with high-performing dynamics is more likely to produce better results than ones marked with discord, dysfunction, and lack of clarity. This article is designed for advisors who want to optimize committee effectiveness and enhance their contributions to investment committees.

Focus on Mission and Vision

An essential tool to enable success is a laser-like focus on the mission and vision of the organization. An intentional discussion of the purpose of the foundation or endowment should begin every meeting. It also should transcend every decision made by the group. Knowing the foundation's purpose keeps members focused on a goal or outcome larger than themselves. It also keeps the inevitable creep toward the latest great idea or trend in check. This common benchmark is critical to overcoming individual motivations, conflicts, and perceptions, and it establishes a common framework for action.

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We also have observed that groups that develop a separate and intentional process of creating or re-evaluating an existing mission and vision of success are able to focus subsequent discussions in a much more productive manner. This process involves setting aside time to talk about the challenges that bring you together—the fundamental motivation for the existence of the fund—along with developing a picture of success. It is part dreaming, part imagination, with a mix of inspiration and aspiration. Although idealistic, it is critical to establishing a commonly held motivation. When these discussions are linked with current activities, the focus becomes operational and typically sets limits. Experience shows us that this is where conflict arises and members of the group begin to shut down.

Many groups we have worked with shortchange this step. Most people would rather discuss today's actions, or even more so, review yesterday's failures. The notion of dreaming about what is possible is difficult. But as we have experienced working with groups in a wide variety of settings, this common focus is the greatest tool in overcoming conflict and fragmentation.

Simply asking the group at the beginning of every meeting to discuss why they are here is a good informal step. An annual review of the mission and vision of the outcome(s) they wish to achieve is also critical. This step is essential when transitions in membership occur. Finally, asking the question, "How does this funding or investment decision help us achieve our vision?" is a good constant reminder.

Transparent Dynamics

All committees have external dynamics that influence their decision-making. It is essential for you, and all members of the committee, to understand and acknowledge those dynamics. It is inevitable that friends, relatives, advisors, or individuals from other foundations will serve on these committees. This dynamic must be carefully managed and cannot be ignored. The first and essential step is to intentionally discuss those relationships as a group. Acknowledging the elephants in the room can be difficult but must be done.

For example, consider one foundation board that looked diverse on the surface. The board comprised different ages, names, organizations represented, etc. After the first board meeting, the dynamics seemed strange. It was hard to point to any one particular issue, but something was keeping people from being transparent.

At times there was lively discussion, but not about anything that really mattered to the mission or finances of the organization. It turned out that the founder (and major donor to the foundation) had selected his wife, his son-in-law who lived in a distant state, a financial advisor to a related family foundation, the president of a nonprofit of which the founder was a past board chairman and still a major donor, and a consultant who received venture capital from the founder some years ago.

Needless to say, the members of this foundation board were intent upon maintaining their relationships with each other, even at the expense of the organization's mission. At first, there was denial that the relationships impacted their decision-making for the foundation. They were offended by the mere thought of it. But after an open and difficult discussion of their motivations for serving on the board, the dynamic shifted. They also recognized that the composition of the board needed to change.

Here are some tips for increasing the effectiveness of committee dynamics:

1. Understand that every committee has a culture, i.e., a set of assumptions, attitudes, and beliefs that guide behavior for various situations. It is your responsibility to figure out the culture and be able to adapt to it as quickly as possible.
2. Spend time fully understanding the background of the committee, the roles the various members of the committee play, and the outcomes the committee hopes to achieve.
3. Be sure that you fully understand the legal framework in which you are operating. An investment committee will have similar duties that board members have in a nonprofit corporation. These include duty of care, duty of loyalty, and duty of obedience. Duty of care requires that all committee members owe the duty to exercise reasonable care when making an investment decision as a steward of the institution. Duty of loyalty requires that committee members give undivided allegiance when making decisions impacting the institution and act in the best interest of the organization. Duty of obedience requires committee members to be faithful to the mission of the foundation or endowment and act in a way that is consistent with the central goals of the organization.
4. Recognize at the start of your involvement with the committee that more transparency, rather than less, is a good thing. Remember that a culture of openness and transparency is vital for committee members to be able to challenge and help recalibrate strategy, assess the organization's risks, and understand its ability to execute its near- and long-term plans.
5. In addition to practicing transparency within the committee, also seek to build trust with stakeholders outside the committee. Help them understand the rationale for various decisions surrounding portfolio management.
6. Remember that it is normal for committee members to bring a certain amount of bias into a discussion. Be prepared to challenge your own thinking and information on any given issue. Healthy skepticism can be an indicator of good committee discussion.
7. Encourage self-assessment of the committee from time to time. It is valuable to give and provide honest feedback on individual performance as well as overall committee performance.
8. Make sure that sufficient time is devoted to preparing an agenda and for robust discussion versus just listening to presentations. Effective committees have a blend of expertise and perspective and encourage debate and discussion on key issues.

Know Your Role as a Consultant

The investment committee should understand your purpose for serving as an advisor and the distinct role that you play. Although you may be considered an outside professional, remember that you bring a unique set of qualifications and expertise to the committee. You provide value in the form of better oversight and reporting as well as a comfort that fiduciary obligations will be fulfilled and that sufficient time is being devoted to oversee the portfolio appropriately and make necessary changes.

What are the expectations of you as a consultant? Are you on the committee to help select portfolio managers? If so, the committee should understand your process for due diligence and risk analysis. Are you there to help advise on long-term investment planning or to manage the portfolio? Make sure the committee knows your background and qualifications for formulating investment strategies and handling portfolios.

Regardless of the committee's size or sophistication level, help to create an environment that encourages questions. Committee members may have questions about the purpose of the portfolio and what success will look like for that portfolio, investment strategies, or how a portfolio relates to the spending needs of the organization. This is where the discussion of outcomes can help. Given the committee's importance, there should be no such thing as a stupid question.

It is also important for you to establish your role with the chairman of the committee. Understanding how hard you can push and the kind of support you will receive is essential to doing your job. Is it your role to remind the group of its fiduciary responsibility to the organization? Again, the intentional discussion of roles and accountabilities helps to establish your position with the group.

Establishing a clear mission, vision, benchmarks, and outcomes is an important asset for you and the chairman of the group. An objective focus that comes from the group gives you and the chairman license to refocus and limit discussions that fall outside boundaries the group has created. The simple ability to ask a member how a certain proposal or action helps achieve the goals set by the group can bring conflict to an end and allow a return to productive action.

If you have any business interests that could conflict with a committee's purpose or obligations, ensure that you fully disclose and document all relationships, whether formal or informal.

Agendas and Documentation

Discussion topics and the number of meetings held will vary depending on the investment committee's charter, the portfolio's complexity, and staff capabilities. If you are new to the committee, review the investment committee charter, meeting minutes and materials from the past one to two years, annual reports and spending policies, and any other relevant reports to gain a greater understanding of the committee's activities.

Setting an agenda is one of the most important aspects of serving on an investment committee. The agenda is an important document that outlines the list of items that will be reviewed, discussed, or acted on during the meeting.

Three items that routinely show up on an agenda are the following:

1. The approval of minutes. The minutes should have been read before coming to the meeting, and approval of the minutes serves as a helpful reminder to review the activities discussed and any decisions made. Approval of minutes usually occurs at every meeting.
2. The review of the portfolio for its investment performance and asset allocation. The focus of the review should be on a long-term perspective as well as on the portfolio's performance in light of overall capital market conditions and returns.
3. The identification of agenda items for future committee meetings.

If you are the person charged with chairing the committee, your worth can be invaluable. The chairman should facilitate discussion but ensure that members may disagree with each other in a professional or courteous manner. The chairman understands when the conversation should end and when decisions should be made. Effective chairmen set the tone to encourage questions necessary for judicious oversight.

Whether you are leading or helping to guide the committee's focus, for every meeting the chairman will want to have available the agenda, all relevant investment material, and reports on performance, risk, and other issues.

Commitment to documentation is another important action of serving on an investment committee. Committee documentation should include dates of meetings, a process for recording activities and decisions, and an accurate account of issues and decisions made. Documentation also should include periodic reports to a board that provides information on the committee's activities, including investment framework, portfolio performance, and outcomes achieved.

Tips for Successful Committee Dynamics

Whether you are one advisor or one of many advisors on an investment committee, here are some tips for successful committee dynamics:

Committee size. The investment committee should have enough members to ensure meaningful discussion, debate, and diversity of perspective while allowing consensus-driven decisions. An optimal size for an investment committee is roughly five to eight members.

Scheduling committee work. If the committee meets three times a year, it should schedule those meetings far in advance so members can plan to attend. If not all members can attend in person, consider scheduling meetings online via Skype, Google Hangout, or GoToMeeting. Also, if the committee wants to engage millennials, consider varying the time of those meetings. If the committee is used to holding meetings only during the work day, it should consider scheduling one meeting on the weekend or in the evening to allow for greater flexibility. Committee attendance is vital. Members who fail to attend meetings can negatively impact committee outcomes and dynamics. In addition, the committee should consider holding an event outside the formal committee meeting such as a lunch or dinner to build rapport and communication among members.

Agenda preparation. The investment committee chairman, working in close coordination with the staff (if any), should prepare an agenda. It is best never to hold a meeting without an agenda sent in advance. A committee can only expect reasonable participation when members have had time to prepare. Agenda items should be arranged carefully. It is wise to start the meeting with agenda topics that will unify the committee and set the stage for working together. It is also prudent to discuss topics that require a lot of mental energy earlier in the meeting. Committee meetings should provide sufficient time for each topic, and they should result in a list of actions or action items that may require further research or consultation.

Committee preparation. Come fully prepared to be engaged and participate at the meeting. Read the material before (not on the way to) the meeting and develop questions or comments in response to the material.

Meeting length. Determine the right amount of time for a meeting. This is best discovered by knowing the outcomes expected for that particular meeting and estimating the time for achieving those outcomes. Does the committee need just four hours or does it need a day or longer?

Meeting location. Think about the meeting location that will provide optimal engagement. Some committees meet at the same location; others rotate meeting places based on travel distance and time constraints.

Meeting discussion. As an advisor, you can play an active role in moving members toward active participation, decision-making, and achieving consensus. Encourage a clash of ideas but not of personalities. Good decisions result when a committee examines all sides of an issue. You also can play a role in keeping discussions on track by periodically summarizing a discussion and reminding committee members about the goal of the discussion.

Report. Following the meeting, the chairman or the staff person working with the committee should draft a written report that highlights the date, time, and place of the meeting and the names of members present. The report should be free of investment jargon and written in clear, understandable English. The report should include all decisions reached on the performance and risk of portfolios, including any motions passed and follow-up action to be taken, with deadlines for implementation. The report also may include a brief summary of the discussions; it's not necessary to attribute comments to specific committee members except where formal motions are introduced. This report should be circulated among the investment committee for its review and distributed to the board as an update on the committee's progress on overall strategy, portfolio performance, and potential risks.

COMMITTEE MEETING PROCESS CHECKLIST

1. Meeting identification (Date, time, frequency, location)
2. Purpose (Why are we here? Why is this specific meeting being called?)
3. Participants and roles (Who is attending and what role will each play?)
4. Preparations (What should be done to prepare?)
5. Agenda (What is the agenda for this meeting?)
6. Results (What were decisions or results for each agenda item?)
7. Action Items (What will we do as result of this meeting?)
8. Next meeting (How will we follow up on action items?)
9. Work Progress Evaluation (How successful was our work on this agenda?)
10. Group Process Evaluation (How successful was our meeting?)

Enhancing Your Role as a Consultant

In addition to specific expertise that you bring to the investment committee, here are some qualities for bolstering your role as a consultant:

- Be respectful of other committee members and staff by showing a willingness to listen to all views and feedback.
- Treat all members of the committee as equal partners in discussions.
- Encourage the participation of all committee members by asking for each member's input.
- Make sure that dissenting and alternative perspectives are encouraged. It is important to frame them as perspectives. It is also helpful to dig deeper into where particular perspectives come from.
- Exhibit active participation and interest in the committee's short- and long-range goals.
- Understand how the investment committee fits into the larger work of the institutional foundation or endowment.
- Take the initiative and follow through on additional information that is requested.
- Show an ability and willingness to execute responsibilities and complete work in a timely manner.

Dealing with Committee Member Conflict

Effective investment committees should have a blend of expertise with a variety of perspectives. The committee culture should encourage rigorous discussion on key strategic issues. Healthful conflict, in which opposing viewpoints are discussed, can be of significant benefit to an investment committee but it must be effectively managed. Unhealthful conflict can divert energy, demoralize all involved, and prevent the committee from accomplishing its work. If you are attending an investment committee meeting and conflict arises, here are some steps for resolving disagreement:

- First, a clear mission and a vision of what the committee, fund, or group wants to achieve are critical. There must be a commonly established benchmark for success that guides all investments, funding decisions, and actions. Without this clear direction, you are asking for individual motivations to dominate group discussions.
- Clarify objectives of each meeting and maintain a clear focus.
- Clarify roles and responsibilities of committee members, consultant, and staff.
- Focus on committee outcomes. Why are we here and what will our work accomplish? It helps to use the vision or outcome as a benchmark. This keeps the group focused on something larger than the conflict.
- Strive for understanding different perspectives. Embrace resistance by acknowledging it and not avoiding it. In striving for understanding, do not interrupt another committee member; acknowledge valid points made by committee members; do not dismiss any relevant and reasonable idea without exploring it; and make sure that you are not involved in making personal attacks on another member.
- Know the personalities of the group. Understand which individuals are binary (they instinctively go to one solution) and those who are constantly exploring (they never offer motions but always want more discussion).
- Respect differences and diversity by listening and reiterating what you understand the committee member is saying.
- Generate alternative choices and solutions.
- Use humor carefully with the intent not to offend.

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