Fact Sheet: Structuring an Effective Investment Committee

The following fact sheet provides you with an overview of the roles of an investment committee within your community foundation. It also provides detailed information on how to structure an investment committee.

The Investment Committee plays one of the most important roles in any community foundation. If managed effectively, it can turn $1 into $2 or more over time – allowing the foundation to better serve its community, over a longer period of time.

That extra dollar is not free, of course. The Investment Committee must, in collaboration with its investment management partners, take calculated **risks** to earn that **return** and pay reasonable **fees** for that advice. More often than not, this means investing in the stock and bond markets but sometimes, additional options are available.

The Board also plays an important role in the success of the Investment Committee by defining the committee's purpose and scope, establishing guidelines for how it will operate and communicate, and recruiting new members.

This short primer will take you through the main things to watch out for, and outline the responsibilities of the members of your Investment Committee.

Attributes of a Successful Investment Committee

The most successful Investment Committees tend to have a Chair with strong investment knowledge, the ability to run effective meetings, and a willingness to seek outside expertise when required. We recommend a tight group of 3-5 members, depending on experience, and to review the composition regularly based on the committee's effectiveness.

The following are attributes of a successful Investment Committee:

- **Expertise:** Some members have a strong grasp of investment fundamentals, plus others with an understanding of community, stakeholder (and donor) needs, plus governance experience.
- **Diversity:** There are diverse backgrounds, perspectives, and areas of expertise on the committee, which can strengthen decision-making.
- **Objectivity:** Decisions are made based on objective analysis, rather than personal biases or interests.
- **Collaboration:** The committee communicates and works well together.
- **Strategic thinking:** The committee develops a long-term investment plan aligned with the foundation's financial needs and goals.
- **Risk management:** In conjunction with experts, members assess and manage risk to protect the foundation's assets.
- **Transparency:** The committee is transparent about its decision-making process and forthright with stakeholders about the foundation's investment strategies and financial performance.

Headwinds to Watch Out for with Your Investment Committee

- **Lack of expertise:** A disconnect between personal expertise and fiduciary requirements.
- **Time allocation:** Insufficient time budgeted by members to prepare for and attend each meeting.
- **Conflicts of interest:** Personal or financial interests **–** actual or perceived **–** that may conflict with those of the foundation or its beneficiaries.
- **Groupthink:** Conforming to the opinions of the group rather than thinking independently.
- **Analysis paralysis:** When excessive data overwhelms the decision-making process. All data should be useful for evaluating strategic policy decisions and/or monitoring portfolio characteristics and manager performance.
- **Poor communication with stakeholders:** Without this accountability, committees can sometimes make imprudent, short-term-oriented decisions.
- **Lack of discipline:** Not following a well-defined investment strategy / process.
- **Emotions:** Placing too much emphasis on current events and recent performance.
- **Strategist vs Fiduciary (aka "What hat am I wearing?"):** This is a stewardship role and not an investment manager / strategist. Remember to wear the fiduciary hat and avoid bringing personal bias to the table.

What is a Fiduciary?

If you sit on the Investment Committee of a foundation, **you** are a fiduciary! What does this mean? It is a special position of responsibility with its own legal definition.

A fiduciary:

- Is a person or organization that owes to another the **duties of good faith and trust.**
- Includes Trustees, Board members and **Investment Committee members**.
- Must **avoid conflicts of interest** (including the perception of a conflict of interest).
- Is responsible for making decisions that are in **the best interests of the foundation and its beneficiaries**, and not for the personal benefit of the committee members or any other stakeholders.
- Must act with **care, diligence, and prudence** in managing the foundation's financial assets.

In short, you are held to the highest standards of integrity and must faithfully serve the foundation’s interests. One of the key ways to do this is by establishing a well-defined investment program which contemplates the long-term needs of the foundation.

How to Get Started with an Investment Program?

This document is meant to be fairly high level, but the following are the main elements of this process:

- **Establish investment objectives:** Include specific, measurable goals and objectives.
- **Identify constraints:** These include regulatory requirements, cash flow or liquidity needs.
- **Assess Risk Profile:** Risk cannot be avoided, but it can be managed.
- **Determine asset allocation:** A suitable asset mix balances the return and risk objectives.
- **Develop an Investment Policy Statement (IPS)*:** The IPS outlines the Foundation's financial goals and risk tolerance, and the investment strategies and guidelines that the committee will follow, including policies around manager selection and assessment, pricing, risk assessment, etc.
- **Determine Investment Vehicles:** Stocks, bonds, real estate, alternatives.
- **Select Professional Investment Manager(s):** Establish and follow the process as a fiduciary. Consider robustness of process, Not-for-Profit experience, service levels, and fees among other factors.

***** The creation of the IPS is ***the most important part of the process*** as it brings together all of the other elements and gives the committee and its investment managers an objective playbook for executing the strategy. That playbook becomes crucial when markets are down and emotions and fears are running high. Your investment manager should be an active contributor in the creation of this document.

Community Foundations of Canada is grateful for the collaboration of Leith Wheeler in creating this factsheet for community foundations.

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