

Structuring Your Investment Committee

February 1, 2023



The Learning
Institute

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Introducing



Leanne Scott
Vice-President
Portfolio Manager



Mike Baker
Vice-President
Portfolio Manager

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Overview:

Structuring an Effective Investment Committee

- The Role of a Fiduciary
- Importance of an Investment Committee
- Constructing an Investment Committee
 - Attributes for Success
 - Composition of Membership
 - Member Selection
- Investment Committee Headwinds
- When to Make Changes to the Committee
- Developing a Well-Defined Investment Program and Structure
- The Importance of a Comprehensive Investment Policy Statement (“IPS”)

What is a Fiduciary?

- A person who owes to another the **duties of good faith and trust**
- Makes decisions that are in the **best interests of the Foundation and its beneficiaries**
- Must act with **care, diligence, and prudence**
- Must **avoid conflicts of interest** (including perception)
- Includes **Trustees, Board members and Investment Committee members**



Conflict of Interest

['kän-flikt av 'in-t(ə-)røst]

A situation in which an entity or individual becomes unreliable because of a clash between personal (or self-serving) interests and professional duties or responsibilities.

Source: Investopedia

Importance of an Investment Committee

- Primary responsibility for creating, implementing and overseeing the investment program.
- 3 main functions:

1. Return

- Asset mix is the primary driver

2. Risk

- Risk ability
- Risk Willingness
- Ability trumps Willingness

3. Cost

- Reasonable

Successful Investment Committees Start with the Board

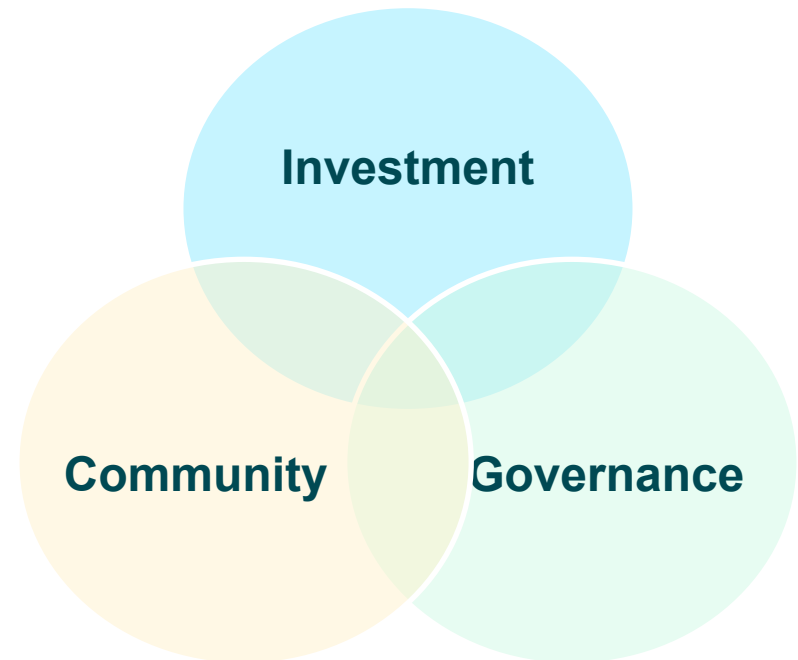
- Board of Directors / Trustees:
 - **Define Investment Committee's Purpose and scope**
 - **Establish Rules and Procedures**
 - **Identify and recruit members**

Attributes of Successful Investment Committees

- **Expertise:** Investment and otherwise
- **Diversity**
- **Objectivity:** avoid bias
- **Collaboration**
- **Strategic thinking**
- **Risk management**
- **Transparency:** in decision-making processes; and communications.

Committee Composition

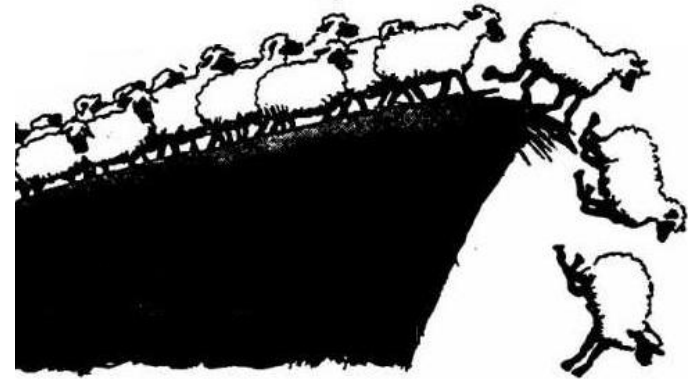
- **Chairperson is Critical**
- **Committee Size: “less is more”**
 - **Target 3-5 members depending on experience.**
- Consider reviewing the committee's performance and effectiveness on an ongoing basis and adjust the size or composition of the committee as needed.



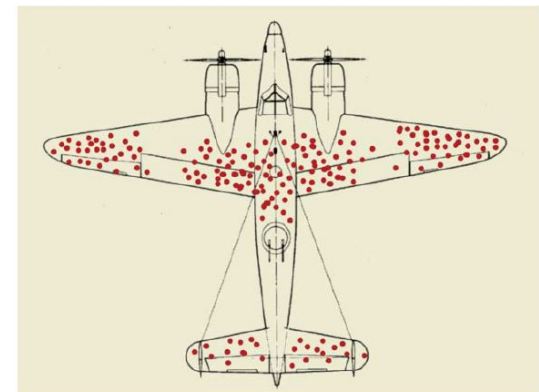
*Consider a Diverse and Balanced
Group of 3-5 Members*

Headwinds to Watch For

- Lack of Expertise
- Time Allocation and Effort
- Conflicts of Interest: actual or perceived
- Groupthink
- Unconscious Bias
- Analysis Paralysis aka. “a little knowledge is a dangerous thing”



Source: Mike Ferguson



Source: Daniel G. Siegel. *The bullet hole misconception.*

Continued...

Headwinds to Watch For

- **Poor Communication with Stakeholders**
- **Lack of discipline**
- **Emotions: short-termism**
- **Strategist vs. Fiduciary aka. “what hat am I wearing?”**



Source: Warner Bros. Television

When to Make Changes to the Committee

- Based on changing needs and goals of the Foundation
- Based on the performance and effectiveness of the committee as a whole
 - Effective contributions?
 - Evolving requirements for expertise
- Consider time-based, staged terms of appointment

A Well-Defined Investment Program – First Steps

- 1. Establish investment objectives**
- 2. Identify constraints**
- 3. Assess Risk Profile**
- 4. Determine asset allocation strategy**
- 5. Develop an Investment Policy Statement (IPS)**
- 6. Determine Investment Vehicles**
- 7. Select Professional Investment Manager(s)**

Many Ways to Define Risk, Including:

- **Negative Absolute, Relative or Real Returns**
- **Volatility of Returns:** Short-Term Variability
- **Liquidity Risk:** Failure to Find a Buyer
- **Concentration Risk:** Too Much Exposure to a Single Investment
- **Credit Risk:** Interest / Capital may not be Repaid
- **Re-Investment Risk:** Reinvesting Principal at Lower Rates
- **Poor Governance / Stewardship**
- **Reporting Risk**

*Successful investing is about defining, understanding and managing
risk*

A Well-Defined Investment Program – Ongoing

- **Monitor and review investments:** Ensure compliance with IPS.
- **Monitor, understand and evaluate investment manager(s)**
- **Reporting and Communication:** Transparent and knowledgeable communication with the Board, staff and beneficiaries, as applicable.

*A well-defined investment program takes time and effort.
Work with a professional with experience managing Foundation assets.*

The Importance of a Well-Defined IPS

Governance, governance, governance...

- Clear investment objectives
- Investments which are consistent with risk profile
- Provides a decision-making framework
- Sets standards for Accountability
- Sets the stage for better investment results over time

An IPS is a living document, that should be reviewed and updated periodically.

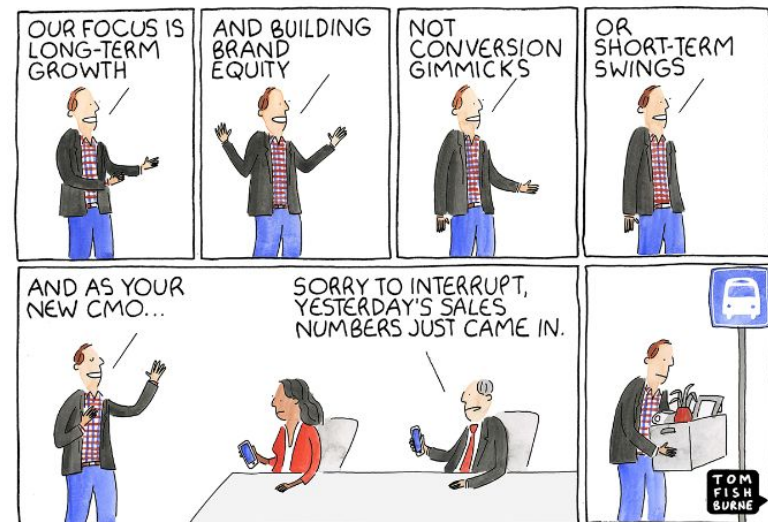
Sample Investment Policy Statement

Summary of Investment Policy Statement Inputs

Purpose	To support the social and environmental needs of the local community
Investment Objectives	A combination of income generation and long-term capital growth
Income requirement	Minimum 5.0% annual disbursements
Target Return	Inflation (CPI) + 3.0% after fees per annum
Risk Policy	Moderate to High: Overall risk to be reduced through diversification by asset class, geography and investment style
Asset Allocation	Equities: Neutral 60%, min-max range 50% to 70% Fixed Income/Credit: Neutral 30%, min-max range 20% to 40% Alternatives (e.g. Real Assets): Neutral 10%, min-max range 5% to 15%
Other	Investment manager(s) must integrate <u>Environmental, Social & Governance (ESG) factors</u> into investment decision making
Restrictions	<u>No tobacco-related companies</u>

Portfolio Performance Inhibitors

- Unclear investment guidelines
- Ineffective diversification
- Time mismatch
- Poor communication



Source: Marketoonist.com

Involve your Investment Manager in investment-related policy discussions.

Conclusion

- The Investment Committee is one of your most critical success factors.
- Successful portfolio stewardship includes:
 - Fiduciary Standard.
 - Diverse, balanced and engaged Investment Committee, with sufficient investment experience.
 - Comprehensive Investment Policy – effective framework
 - Long-Term perspective – avoid bias
 - Robust monitoring
 - Clear and transparent communication

***Make your Investment
Manager a partner,
experienced managers are
always happy to support you.***

Breakout Room Discussion

Questions:

1. Is your community foundation following a structured investment process?
2. Is your community foundation focused on a long-term process or short-term outcomes?
3. What beneficial techniques have you used to structure your investment committee?
4. What should a fiduciary do when a conflict of interest arises?

Thank you!

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