

Graystone Consulting

from Morgan Stanley



Non-Profit Board's Guide to Building an Effective Investment Committee

How to Position Your Investment Committee
to Be Successful Stewards of the Organization's Assets

START

Investment Committees: A Vital Piece of a Well-Functioning Board

Investment committees play a critical role in the success of any foundation, endowment, or other non-profit organization. Capital is the lifeblood that fuels an organization's ability to fulfil its mission, and effective stewardship of that capital starts with having an effective investment committee.

Having a strong, well-functioning investment committee doesn't happen by accident, and it takes more than just identifying members who have investment experience. It takes alignment with the organization's mission, strong governance, effective engagement with the board and outside investment professionals, and a commitment to creating the right team dynamic within the committee.

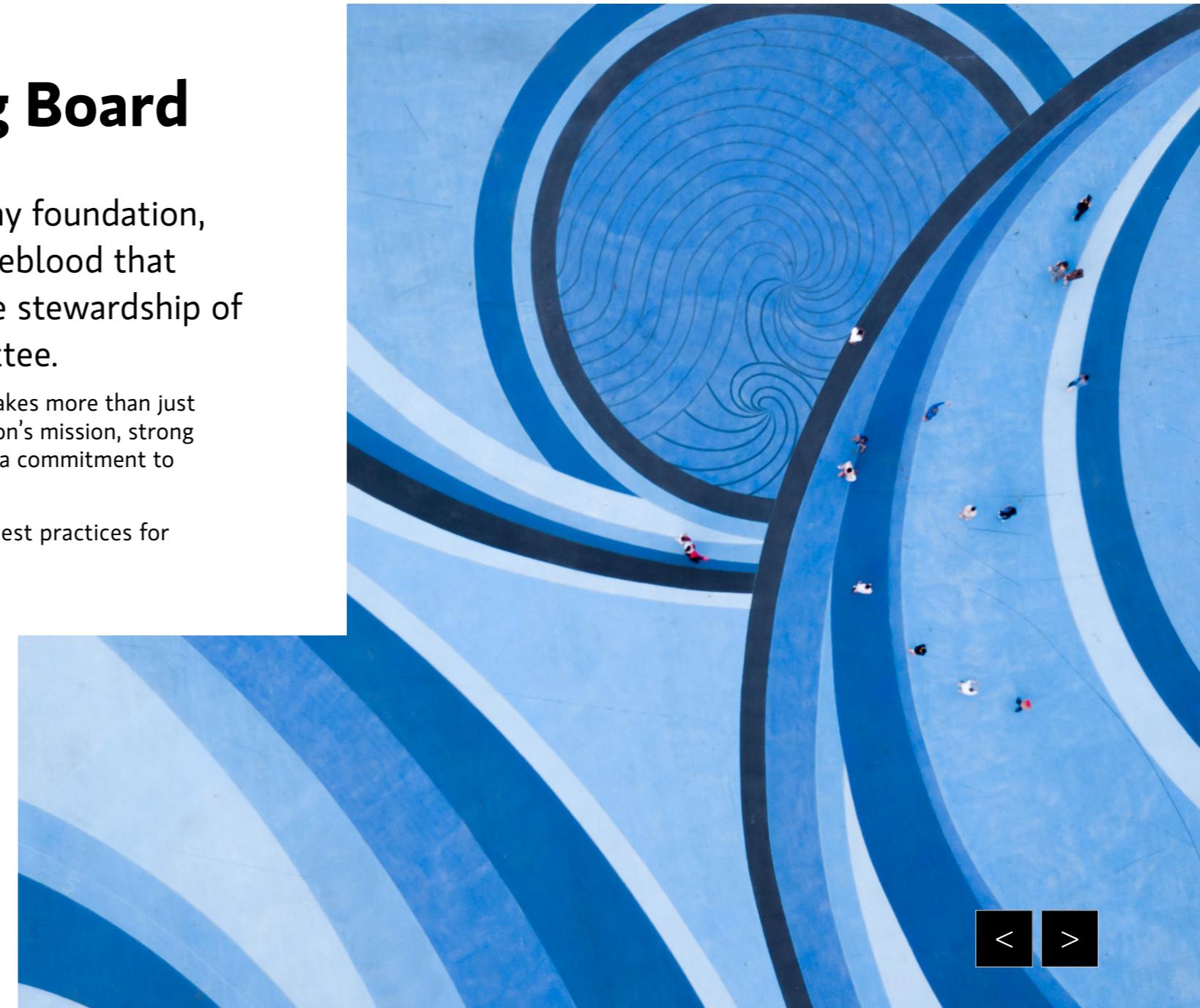
We explore the characteristics of highly effective investment committees and discuss the best practices for building a committee that provides strong stewardship of the organization's assets.

In this e-book, we explore:

**Understanding the
Investment Committee's Role**

Building the Right Team

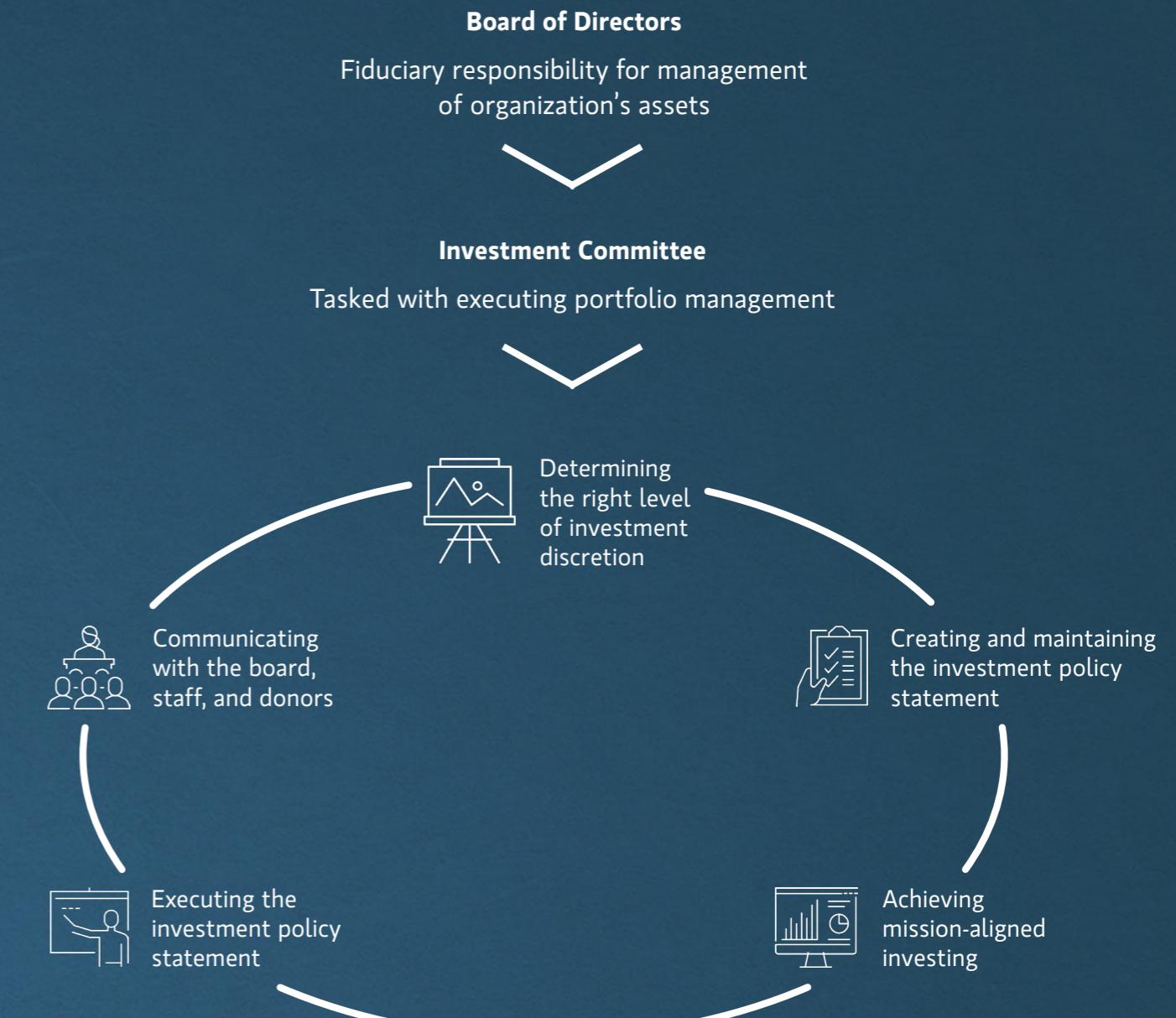
**Getting the Most Out of Your
Consulting Engagement**



Understanding the Investment Committee's Role

The board ultimately has fiduciary responsibility for the management of the organization's assets. Many boards choose to form an investment committee, which often is a subcommittee of the finance committee, and task the investment committee with executing this work.

Overseeing the organization's assets can take many different forms depending on the size and type of the organization. Fundamentally, though, this oversight will include several core functions.





UNDERSTANDING THE INVESTMENT COMMITTEE'S ROLE

Determining the Right Level of Investment Discretion

Boards need to decide how much control they want the investment committee to have over managing assets and what level of decision-making and execution they want to handle internally vs. outsource.

The right level of involvement in investment decisions typically is a function of the organization's size and the investment committee's capabilities and expertise. Smaller organizations' investment committees tend to outsource more of these responsibilities whereas the committees of larger organizations may look to retain more direct control over the day-to-day decision-making and execution.

Traditionally, boards may have gravitated toward one end of the discretion spectrum or the other, but now some are using a hybrid approach that tailors their consultant engagement model to fit their desired level of involvement. For example, a board may want to give a consultant full discretion in managing public equities and public bonds, but when it comes to private assets, which often have long lock-up periods, the board will retain discretion and seek the consultant's guidance.

Traditional Consulting

Project-oriented approach driven by the client's needs

Consultants

Help investment committee make informed decisions on manager search and special studies; provide portfolio monitoring and performance reporting

Investment Committee

Responsible for portfolio construction and implementation

Partial Discretionary

Collaborative approach between the client and consultant

Consultants

Assist with investment objectives and guidelines; provide portfolio monitoring and performance reporting

Investment Committee

Determines which investment decisions require approval

Collaborative Portfolio Management

Either party can be responsible for construction and implementation

Full Discretionary

Outsourced Chief Investment Office (OCIO) approach overseen by the client

Consultants

Responsible for asset allocation, manager due diligence and selection, risk management, and all other day-to-day tasks

Investment Committee

Focused on monitoring the big picture rather than day-to-day decisions

UNDERSTANDING THE INVESTMENT COMMITTEE'S ROLE

Creating and Maintaining the Investment Policy Statement

The investment policy statement (IPS) is the foundation of the investment committee's work and serves as the governance blueprint. The IPS codifies the board's authority and guides the investment committee's decision-making.

Best practices for crafting and maintaining an effective IPS:

- Work with your board and consultants to develop and maintain the IPS: Although the investment committee is typically tasked with developing the IPS, the committee shouldn't act in a vacuum. The board's consultants can be extremely helpful, either by helping to draft the IPS or by identifying ways to update or improve it. The board is ultimately responsible for approving the IPS, so the investment committee and consultants need to keep the board informed throughout the process.
- Review the IPS at least annually: The IPS needs to reflect changes at the organization, board, or investment committee level. Furthermore, the IPS needs to reflect any changes the board has made to how it wants to manage and oversee the assets. Major changes in market conditions or in the organization's budget, such as a transformational gift or the approval of a major capital project, can also merit reviewing the IPS ahead of the annual cycle.
- Document your changes: Keep a revision history of the IPS so future board members can see how the document has evolved.
- Don't include policies or practices that your board can't implement and monitor: A common mistake that investment committees make is codifying things in the IPS that the committee can't properly execute or monitor.

Elements of an Investment Policy Statement:

While the scope of an IPS can vary across organizations, this document should contain the following core elements:

Governance

- Purpose of the IPS and use of funds to support the organization's mission
- Number of members on the investment committee and specific roles and subcommittees
- Cadence of meetings
- Roles and responsibilities of investment committee members, consultants, and other advisors
- Criteria for what decisions can be made independently by the investment committee and what needs to be approved by the board

Investment

- Investment objective
- Spending policy and smoothing technique
- Asset allocation, including targets/bands, target returns, benchmarks, and rebalancing policy
- Liquidity constraints
- Manager and consultant selection process
- Investment restrictions and mission-alignment considerations

UNDERSTANDING THE INVESTMENT COMMITTEE'S ROLE

Achieving Mission-Aligned Investing

Boards and their investment committees are increasingly looking for ways to ensure that the companies, governments, and projects in which the organization is investing in are using that capital in a way that aligns with the organization's larger mission.

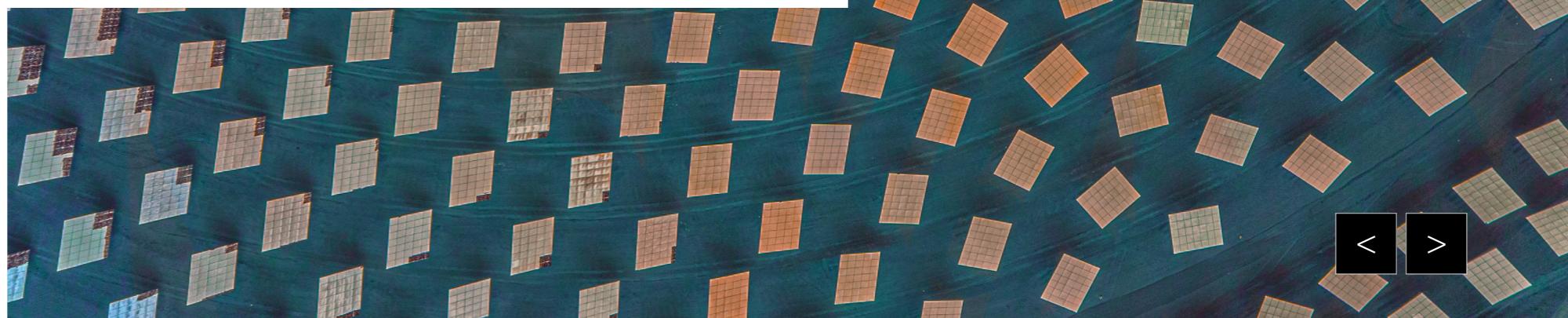
At a minimum, mission-alignment involves avoiding investments that undermine the organization's intended social or environmental impact or contradict the organization's values. For example, the board of an aquarium may choose to divest the stocks of companies with operations that damage marine wildlife habitats.

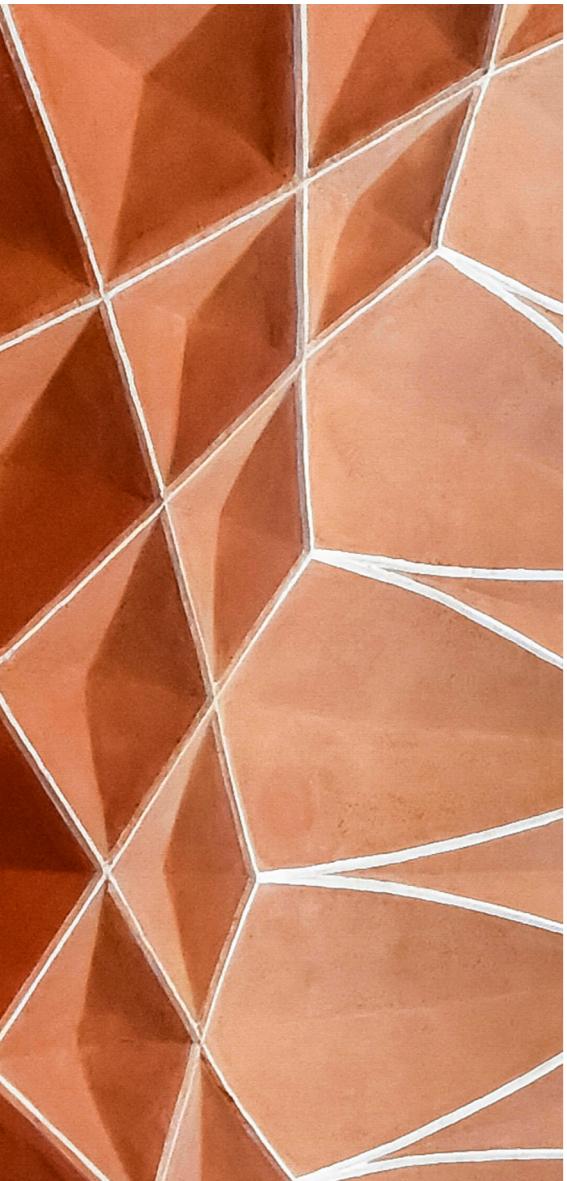
A more comprehensive view of mission-aligned investing also seeks investments that can have a positive impact and extend the organization's reach beyond its own operations. For example, the endowment for a college that caters to lower-income adult learners may invest in education technology companies focused on making learning opportunities more accessible for all students.

The assets overseen by the investment committee can do more to support the organization's broader mission than simply providing funds for the operating budget.

Dive Deeper into Mission-Aligned Investing

[Learn more](#) about how non-profit organizations are looking beyond just risk and return metrics to determine which investments are a good fit for their portfolios.





UNDERSTANDING THE INVESTMENT COMMITTEE'S ROLE

Ensuring the IPS is Being Properly Executed

A critical part of the board's fiduciary responsibility is making sure that the asset allocation, rebalancing, and other policies set forth in the IPS are being monitored and properly executed.

This involves managing the relationships with and monitoring the performance of asset managers, consultants, and other external advisors the investment committee has engaged.

Retained Discretion: If the investment committee has retained discretion of manager selection and investment execution, ensuring proper execution of the IPS entails conducting due diligence on the front end and then monitoring the performance of these investments. It also involves rebalancing to ensure that the portfolio remains within the target asset allocation ranges and liquidity constraints.

Outsourced Discretion: If the investment committee has given discretion to a consultant or an OCIO, ensuring proper IPS execution focuses on maintaining constant communication with the external advisors to make sure they are managing the portfolio and providing reporting and manager oversight in alignment with the IPS.

Communicating with the Board, Staff, and Donors

Investment committees shouldn't operate in a vacuum. It's vital to stay connected with the board and other key stakeholders.

Board: In addition to keeping the board informed about the investment committee's activities and the performance of the portfolio, many major investment decisions require the board's approval. These may include engaging a consultant, setting the spending policy, or investing in a private company. With higher-stakes decisions like these, the investment committee needs to ensure that the board understands the nuances of the decision and its financial implications. This often requires having consultants prepare materials and give presentations to educate board members on investment fundamentals and the considerations related to specific investment decisions.

Staff: The investment committee also may need to work with the organization's Chief Financial Officer and other financial staff to share information that is critical to the management of the portfolio and the execution of the investment decisions.

Donors: Many large donors will want to know how the assets are being managed and consider ways to build a financial legacy through their gifts.

Building the Right Team

In addition to having the right objectives and governance, an investment committee needs the right people to thrive. This comes down to not just identifying the right individuals to serve on the investment committee, but also creating the right structure and team dynamic so that the whole is greater than the sum of its parts.



Composition of an Investment Committee



Qualities of Effective Investment Committee Members



Finding the Right Person to Chair the Committee





BUILDING THE RIGHT TEAM

Composition of an Investment Committee

The makeup of an investment committee has important implications for how effectively the unit functions from logistical and interpersonal perspectives.

Size: Generally speaking, size should be tailored to the particular circumstances of the organization. For example, a larger committee might be preferable when busy members have trouble attending scheduled meetings, making a quorum difficult to achieve. Typically, a committee with five to nine members is often optimal, but every organization must make a thoughtful decision based on its unique needs.

Team Dynamic: Like any team, culture and chemistry are essential for a successful investment committee. All members should be fully engaged in the conversations and decision-making. Avoid situations where one member dominates the conversations while others don't join discussions or ask questions.

Level of Investment Expertise: Having people with investment experience is essential for an effective investment committee, and the amount of expertise needed will vary by organization. For committees that retain discretion of decision-making and execution, it is helpful if most members have either worked in the investment industry and/or have served on an investment committee previously. This is particularly true for organizations that have large allocations to private, illiquid asset classes, which require a deeper understanding of liquidity considerations and deal structuring. For investment committees that give more discretion to consultants, it is still important to have members with investment experience, but there is more room for members without this professional experience.

Diversity of Thought: While having a concentration of people with investment expertise is essential, it is also important to bring diverse perspectives and experiences to these discussions. Creating an investment committee that comprises true diversity of thought can strengthen decision-making by reducing the risk of group-think and help ensure that the investment portfolio reflects the organization's mission and values.

BUILDING THE RIGHT TEAM

Qualities of Effective Investment Committee Members

Boards should look for people with the following characteristics when assembling an investment committee.

Willingness to Prepare

Being an effective investment committee member is no small task. It takes, perhaps, more preparation than any other committee. Before each quarterly meeting, consultants will deliver reports on the performance of the organization's managers and assets. Investment committee members need to read and understand these reports—while identifying areas that need more explaining—ahead of time so they can fully engage in the discussion at that quarter's meeting.

Long-Term, Institutional Perspective

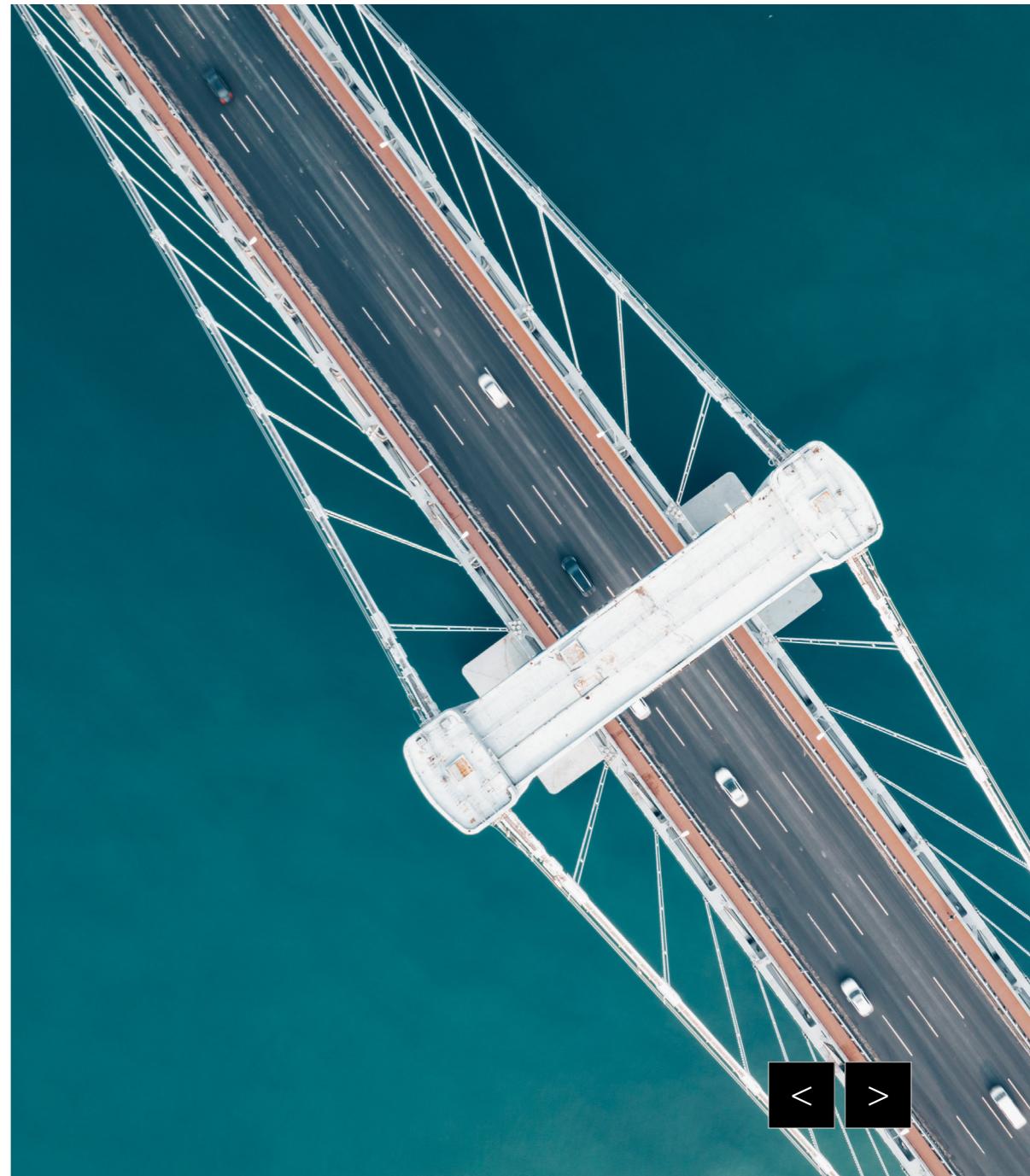
Retail biases—including being reactive to short-term market results and failing to appreciate the difference between managing assets for an institution versus an individual—are among the biggest threats to an investment committee's decision-making. Committee members need to view the organization's portfolio through the lens of an institutional asset manager and think in terms of generating returns in the context of the organization's spending needs, liabilities, and capacity for illiquid investments.

Eagerness to Learn and Ask Questions

Even investment committee members who have professional investment experience need to come to the committee with humility, self-awareness, and an eagerness to learn. Members need to be open-minded about the ideas presented by consultants and fellow committee members. When topics arise that members don't understand, they need to ask questions and be willing to challenge the assumptions being made by others in the room.

Alignment with Organization's Interests and Mission

In addition to thinking like an institutional investor, investment committee members need to ensure that they are fully aligned with the organization's mission, values, and objectives. An important aspect of this is making sure that they don't have any personal or professional interests that conflict with the organization's. In some cases, members may need to recuse themselves from decisions where their interests or biases may conflict with what's best for the organization.



BUILDING THE RIGHT TEAM

Finding the Right Person to Chair the Committee

Strong leadership is essential for a well-functioning investment committee. Leading this group is no small task.

The chairperson is responsible for ensuring that the investment committee meets all its responsibilities in executing the IPS. Thus, the person chosen to chair the committee needs the investment expertise and interpersonal skills required to manage a heavy responsibility.

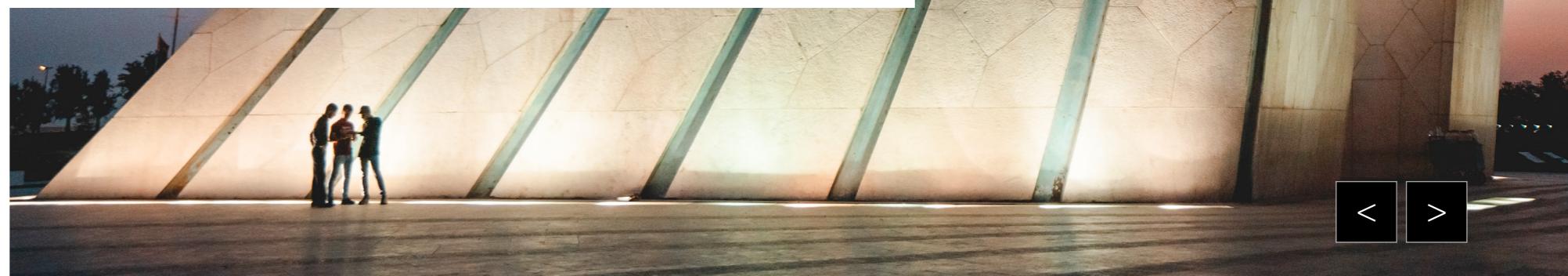
Fulfilling these duties involves setting the agenda for and leading the quarterly meetings and working with consultants and asset managers throughout the year to make sure they are executing the goals set forth in the IPS.

The chairperson also is responsible for making sure the investment committee is operating with excellence. In addition to educating all committee members on their responsibilities, the chairperson needs to be adept at having frank conversations with members who aren't meeting those expectations, providing education and guidance to elevate the productivity of members and, if necessary, removing members who aren't able to fulfill their roles.

The chairperson must have the tact and leadership skills needed to help the group reach consensus without unduly influencing the deliberations with his or her own opinions.

Are You Considering Joining an Investment Committee?

[Download our checklist, "Questions to ask yourself before joining an investment committee."](#)



Getting the Most Out of Your Consulting Engagement

The consultants chosen by an investment committee play a vital role in the organization's success. Identifying the appropriate type of consulting engagement—non-discretionary, full discretion, or something in between—is a critical decision that depends on many factors that are specific to each organization.

Regardless of which model is used, there are several characteristics that investment committees should seek to maximize the value of their consultant relationship.



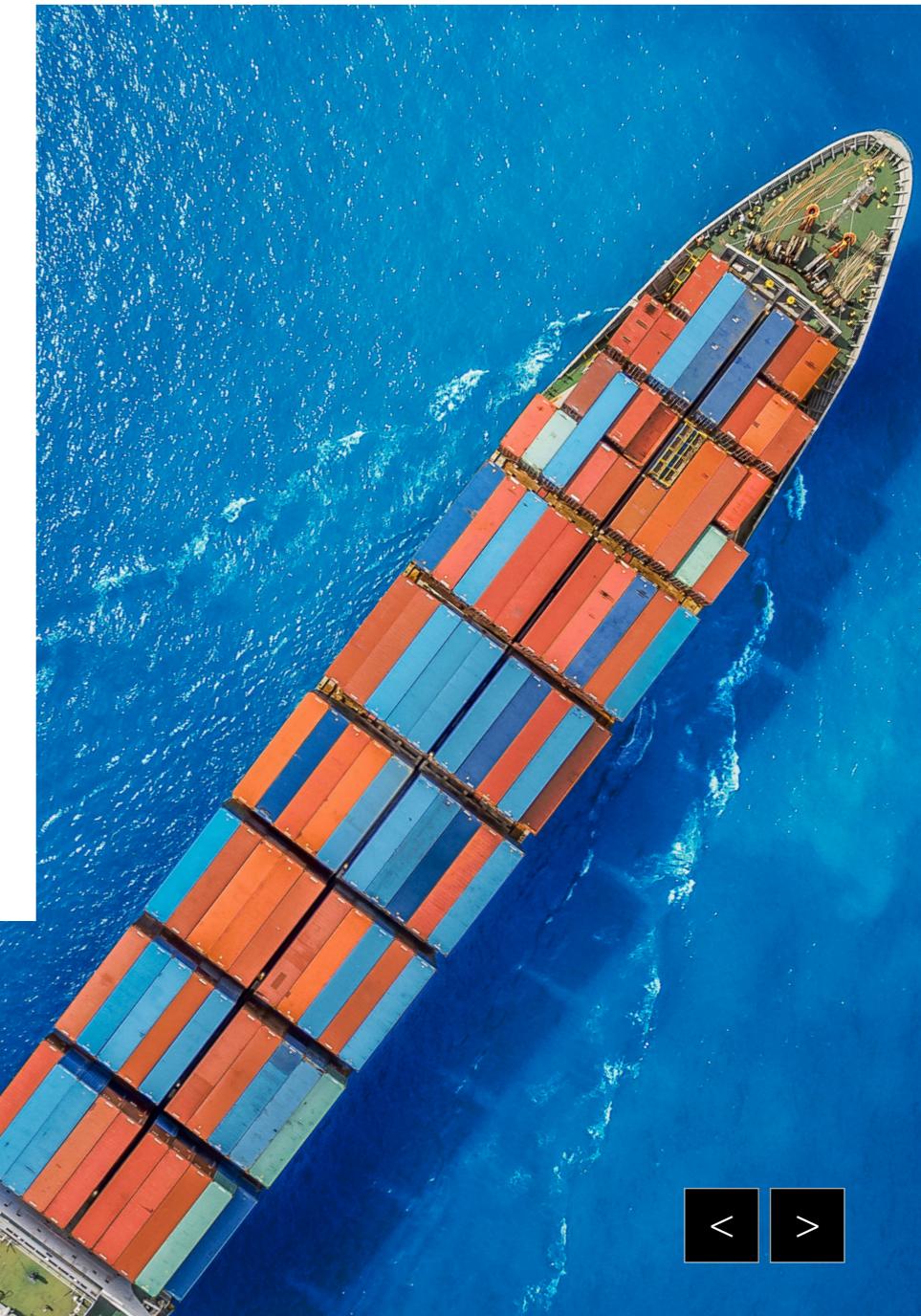
**Value-Added,
Holistic Services**



**Ability to Be Responsive
and Nimble**



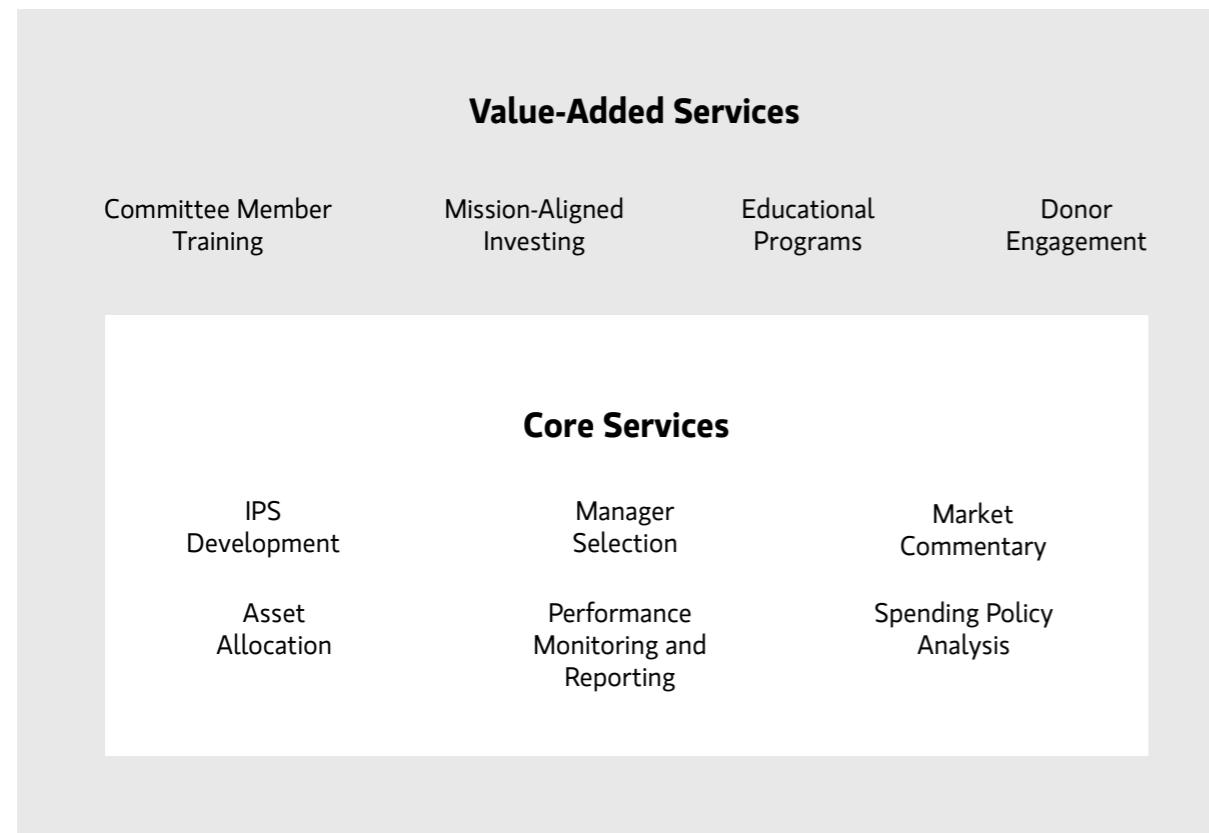
**Customization
Capabilities**



GETTING THE MOST OUT OF YOUR CONSULTING ENGAGEMENT

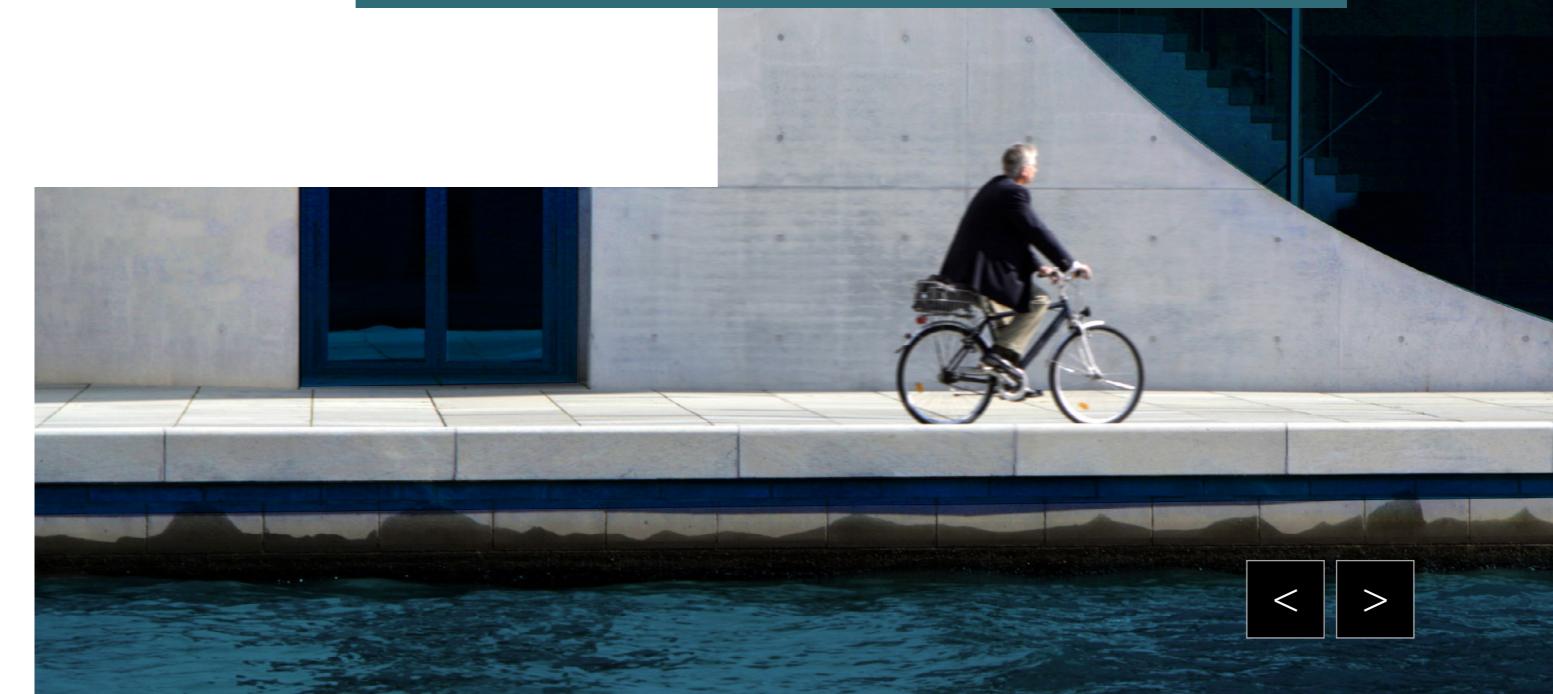
Value-Added, Holistic Services

A consultant's value proposition can extend far beyond the core services offering. Investment committees should look for partners that can provide holistic support in high-value areas.



Education Is Essential

The education component is a particularly important value-added service. In addition to training incoming board and investment committee members, consultants can create an annual curriculum focused on emerging topics that merit special attention from the committee and board, such as private credit, ESG, and inflation.



GETTING THE MOST OUT OF YOUR CONSULTING ENGAGEMENT

Ability to Be Responsive and Nimble

An important trend in non-profit portfolio management is having the capability to act quickly to capitalize on new opportunities or respond to emerging threats.

If a board is meeting quarterly, the three-month gaps between meetings may cause the organization to miss out on opportunities that have shorter investment windows, which can often be the case with private equity and other non-public investments.

This desire to be nimbler in execution is another reason why many organizations are moving toward hybrid engagement models with consultants or empowering investment committees with more latitude to make tactical decisions without getting board approval.

Customization Capabilities

Investment committees should evaluate a consultant's ability to customize portfolios, reporting, and other offerings to meet the organization's unique needs.

Granting full discretion to the consultant can be particularly appealing for many organizations, but not all OCIO platforms are created equal. Many are built for scale, which limits their ability to provide customized portfolios or other services for organizations.

This lack of customization can be particularly problematic for organizations focused on mission-aligned investing. High-level ESG screening likely won't fully reflect the organization's unique values and mission, and these approaches can't capitalize on investments that expand the organization's broader impact.

Elevating the Effectiveness of Your Investment Committee

An effective investment committee is essential to the success of any non-profit organization. Given the increasing complexity and volatility of financial markets, it is vital to have an investment committee that—along with its consultants and managers—has the investment expertise and structure needed to navigate today's markets.

It is just as important to find the right people to serve on the investment committee and to set them up for success by fostering a culture of engagement, accountability, and continuing education.

At Graystone Consulting, we are committed to partnering with non-profit organizations to provide the customized advice, counsel, and service they need to be effective stewards of the organization's capital.

Global Resources with Local Expertise

At Graystone Consulting, we combine local expertise and global resources to help your organization make informed, confident investment decisions.

 **\$515.7**

Billion in total institutional assets under management¹

 **45+**

Years of experience advising institutional clients

 **4,000+**

Strategies monitored annually²

¹ Information as of December 31, 2022. Mandates include all Assets Under Management and Assets Under Advisement.



Let's Talk

We look forward to starting the conversation on how we can help.

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graystoneconsulting.com

IMPORTANT DISCLOSURE

¹ Information as of December 31, 2022. Mandates include all Assets Under Management and Assets Under Advisement.

² Global Investment Manager Analysis (GIMA), December 2021 Investments and services offered through Morgan Stanley Smith Barney LLC When Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors (collectively, "Morgan Stanley") provide "investment advice" regarding a retirement or welfare benefit plan account, an individual retirement account or a Coverdell education savings account ("Retirement Account"), Morgan Stanley is a "fiduciary" as those terms are defined under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and/or the Internal Revenue Code of 1986 (the "Code"), as applicable. When Morgan Stanley provides investment education, takes orders on an unsolicited basis or otherwise does not provide "investment advice", Morgan Stanley will not be considered a "fiduciary" under ERISA and/or the Code. For more information regarding Morgan Stanley's role with respect to a Retirement Account, please visit www.morganstanley.com/disclosures/dol. Tax laws are complex and subject to change. Morgan Stanley does not provide tax or legal advice. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a Retirement Account, and (b) regarding any potential tax, ERISA and related consequences of any investments or other transactions made with respect to a Retirement Account.

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