

INSIGHT: What it means to be a member of an Investment Committee

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FOUNDATIONS:

Where do you think the industry is headed?

(RW):

Foundation investing is considered “forever money” – meaning that the investment objective is to preserve the capital of the foundation on an inflation-adjusted basis, while supporting a regular distribution – the supportable distribution has tended to be around 4% of the asset value. This translates into return expectations of around 6.5% per year over the long term. My guess is that returns at that level will be harder to achieve in the future, which will put pressure on Investment Committees. The pressure will be not only to find appropriate risk-weighted returns, but also to be able to demonstrate best practices in the investment of the foundation. I think this pressure, along with the increasing variety and sophistication of investment products and vehicles available, will create an opportunity for consultants and advisors. Volunteer Investment Committees are more likely than ever to feel under-resourced and interested in exploring their options.

FOUNDATIONS:

What information do you need as an Investment Committee member to allow you to do your job to the best of your ability?

(RW):

I would like to have more information supporting evidenced-based best practices for similarly situated foundations with respect to their investment function. I think many Investment Committees struggle with these questions and would benefit from more clarity on the types of approaches and structures that have produced the most reliable outcomes. The answer may be that a number of approaches are just as likely to work equally well — but again, some rigorous, independent analysis would be useful.

FOUNDATIONS:

What kind of support do you expect to receive from the organizational staff?

(RW):

Many organizations are not in the position of being able to provide support to Investment Committees. This is the case where the size of the foundation does not warrant dedicated staff and so the investment function needs to be sourced externally, often through a volunteer Investment Committee and third party professionals. In these cases, staff support tends to be administrative, including financial reporting. The organization’s staff can also provide important institutional memory to an Investment Committee whose membership turns over from time to time. These are the types of situations where a consultant or advisor may be helpful.

FOUNDATIONS:

Describe how the Investment Committees you are on make significant decisions, such as how to hire/fire managers.

(RW):

Investment Committees employ a variety of decision-making processes. In cases where a consultant is involved, the consultant will assist with recommendations. The consultant's recommendation and supporting rationale provides a useful "straw man" for discussion by the Investment Committee. Investment Committees will not always follow the consultant's recommendation, but the reasons for taking a different decision are clearer after going through this process.

In situations where there is no advisor, I see either a very engaged and active Investment Committee, or one assembled to oversee a more low-cost, passive investment approach that does not entail the hiring or firing of managers.

FOUNDATIONS:

How well do you think Investment Committees mitigate risk?

(RW):

One kind of risk that Investment Committees face is the risk that comes from poor governance and a poor decision-making process. How well are Investment Committees fulfilling their fiduciary duties? In my experience, Investment Committees do well in this regard. They tend to be populated by engaged and capable individuals who are seeking to act in the best interests of the foundation. Whether or not a consultant or advisor assists an Investment Committee in fulfilling its duties depends on the circumstances, including the particular investment strategy employed and the level of engagement by the Investment Committee. In many cases, having a professional in the mix is helpful to a volunteer Investment Committee; in other cases, the value add is not worth the cost.

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