Fiducient Advisors, Nonprofit Investment Stewards Podcast
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10 Habits of Effective Investment Committees

[00:00:00] Welcome to Nonprofit Investment Stewards with Bob DiMeo and Devon Francis from Fiducient Advisors. Bob and Devon are passionate about helping nonprofit organizations prosper. Whether you oversee endowment, foundation or retirement plan investments, this podcast exists to help stewards improve performance, reduce costs, and discover strategies that enable your charitable organization to prosper and advance its mission. Now, on to the show.

Hello, and welcome back to the Nonprofit Investment Stewards podcast. I'm Bob DiMeo. As always, joined by co-host Devon Francis. Every topic we address is important, but today we cover a topic that can have an outsized impact on the success of your nonprofits, endowment, foundation, or even a retirement plan.

[00:00:54] And I'm talking about the makeup and the behavior of your investment committee. Devon and I are [00:01:00] eager to share tips and best practices. Devon, how are things today? And what are your thoughts on the topic? I am fantastic. Thanks, Bob. I'm really excited about this topic because it gives us the chance to share firsthand what the two of us have learned over the years in working with a variety of investment committees.

[00:01:19] We also reached out to some of our colleagues and got some feedback from them about what works well for their clients. I think that it's a great topic and one that is kind of fundamental and simplistic, but really important in building a strong foundation. I'm also excited to share some examples of perhaps practices that haven't worked so well.

[00:01:40] So it'll be a fun to share both sides of the coin. Yeah. We'll definitely have some fun with this. And we've broken this down into a top 10 list and the order is rather random. Devon, you work with so many committees. Before we jump to the list, can we ask you to think about a client you work with that just kind of crushes it when it [00:02:00] comes to their investment committee?

[00:02:01] What is that like for you and what is it like for them? You know, I've been really fortunate, Bob, that most of my committees are quite functional. Um, so a lot of times you hear about dysfunctional committees and the vast majority of mine operate quite well. But one in particular that I am thinking about is a university endowment that we help oversee.

[00:02:24] And the committee is just fantastic there. It's a perfect size, not too many voices, but it's not too small. Everyone is always very well prepared for meetings. They are informed. They come from a variety of backgrounds. The finance staff is very involved and up to speed on everything. The, the meetings are very well structured.

[00:02:46] So I would say that they are kind of the shining example of, of the to-do list. Excellent. So, let's jump into the list. Number one, we're listing as assemble the right or correct [00:03:00] committee. And I think that means talent and expertise. That definitely matters. But we also find that you need committee members who can check their ego at the door and keep the charitable organization's mission really as the top priority.

[00:03:12] The committee makeup matters too. The ideal size might be five to eight people. Give or take, and then diversity of background, difference in opinion and perspective really ends up producing better outcomes in our experience. And then I'd also add that being intentional about term limits.

[00:03:35] You want this combination of some really strong institutional memory and knowledge, but also fresh ideas and new direction and that kind of thing. Yeah. And what I think is important, Bob, is that just one thing can kind of derail the success of a committee. So, I'm thinking in particular of two examples of clients that I work with, one client [00:04:00] has a fantastic committee.

[00:04:01] It's five individuals. They don't have a lot of investment expertise, but they make a point of informing themselves. It's very diverse in terms of gender and race and professional background and perspective, and everything just runs so efficiently for this one group. So, it's kind of the perfect blend.

[00:04:22] And then on the other hand, I have a committee that kind of checks most of the boxes. So again, it's the right size. It's a diverse group of individuals with some differing perspectives. But going back to your comment about term limits, this particular governance structure calls for members to serve no longer than two years.

[00:04:45] So the longest standing committee member is on the committee for two years and then they roll off. So, there's no institutional memory. So, what we end up having to do with a lot of our meetings is spend time giving the background, okay. [00:05:00] This is why the portfolio is structured in this way. You see a manager here that maybe has underperformed in recent history, but longer-term results have been very strong and you end up giving a lot of background information that you wouldn't have to spend time covering if there was that institutional memory.

[00:05:19] So that's an example of how, just one of these items, if, if you're not able to check the box, it can really derail the success of the committee. Absolutely. And that leads us to number two, a point A talented, diplomatic, and engaged chair. So, the chair sets the stage, the chair can foster discussion and welcome input and, and really ultimately produce good decisions for the benefit of the organization.

[00:05:47] And, you know, I think that's maybe a more challenging objective than, than folks might give it credit for. It's hard to keep meetings moving along while also fostering [00:06:00] discussion and not having an undue influence on the decision-making process. It's, it's a challenging thing to do. One of the things that I think is, is really important is, um, yeah, I know a lot of folks are familiar with Brené Brown.

[00:06:13] I think she's fantastic. And so insightful. And, and one of the things that she talks about is the halo effect. So, the person with the most influence in the room, having kind of an outsized impact on the decision-making process. And so, one of her tips is in order to avoid the halo effect, to have the person with the most power or influence, be the last to provide his or her opinion.

[00:06:40] And I think that's really important because then you get an unfiltered decision or you get unfiltered feedback from the other members of the committee. So, I think that's a really great practice to employ. All right. So, number three on our list is to conduct a pre-call with [00:07:00] staff and the advisor, and perhaps the chair of the investment committee prior to a meeting.

[00:07:06] Why is this important? It's because it establishes efficiencies. It helps the committee, uh, or, or at least the leadership avoid surprises where you can kind of make sure to, to recenter the conversation around the three levers activity, thinking about inflows, outflows and required returns. So, I think it really just sets the stage for having a very efficient and productive meeting.

[00:07:32] It actually brings to mind, uh, a meeting that I had recently with a client where I did not do this, so I didn't follow my own best practices. And I really, you know, 10 minutes into the meeting and I was just kicking myself saying, oh gosh, this would have been going so much better if I had prepped the finance staff and the investment committee chair beforehand, because then they would, would be on board with me.

[00:07:57] And it would have created that consensus [00:08:00] before the meeting began engaging in that practice of, of establishing a pre-meeting call so that everyone just gets on the same page and is aware of what topics are going to be discussed and what priorities you have for the meeting. I think that's a really good, good example.

[00:08:16] So that leads us into our number four of the top 10 list, which is practicing smart logistics. So, Bob, can you explain what we mean by that? Sure. And it's pretty straight forward. We're talking about a regular meeting cadence. It's interesting. As we take over client relationships from other advisors, sometimes there is not an established meeting cadence and it's just kind of a head-scratcher to us.

[00:08:41] So, quarterly is most common, sometimes more frequently, sometimes less frequently, but calendaring that out for a year, you've got folks that are giving time, treasure, and talent, and let's be respectful of, of the committee members' times. And, and, and really just have the importance of the meeting established, [00:09:00] have materials produced and sent out in advance.

[00:09:03] Have good agendas, have follow-up, use portals, many clients use portals for the board or the committee to access, uh, really all of the historical information that's been covered in the investment committee meetings. When clients don't have that, we provide it for them. It's just, it just makes good sense.

[00:09:20] And then this one seems obvious, but it's worth mentioning. Sometimes just showing up is what really matters. You'll sometimes have committees or boards that can't even vote on a matter because they don't have quorum. So, you want engaged committee and board members who are showing up on a regular basis.

[00:09:40] And as we think about logistics, I also think, you know, again, this is a simplistic piece of advice, but I think it's important is to make sure that your meetings are long enough that you have a realistic expectation of what can be achieved in that time period. And something that [00:10:00] springs to mind is I work with a, a client that has two hour long meetings, but they pack so much into their meeting agenda.

[00:10:08] They cover their retirement plan. They cover the endowment, they cover the finance part, part of the equation as well. So, they're talking about budgeting. So, they've got a lot that they have to accomplish in that two hours. One time, you know, maybe about a year and a half into the relationship. I was asking for feedback from the CFO.

[00:10:27] I said, what do you think we're doing well? What could we improve on? Do you have any constructive criticism? And for the most part, he had positive things to say, but he did say we would have expected to get more guidance on what our peers in the industry are doing. So how our other portfolio is positioned, what has their performance been?

[00:10:49] What are their spending practices? And of course, that's something that we do for a lot of our clients. I would in fact say that we do it for the vast majority of our clients, but in this particular [00:11:00] instance, I had never been given more than 20 minutes on the agenda, um, at this particular client meeting.

[00:11:07] So it's really hard to cover everything that we need to cover in a 20-minute timeframe. We're talking about governance calendar materials. We're talking about reviewing the capital markets, looking at the portfolio, recommending portfolio changes. It's tough to cram that into 20 minutes. And then on top of it to talk about what peers in the industry are doing and how their portfolios are positioned is just, you know, it just can't be done.

[00:11:32] So I think being realistic about what can be accomplished in a certain timeframe is, is really important as you think about the logistics of running an efficient, uh, meeting and having, uh, a well operating investment committee. For sure. So, number five, focus on what really matters. And by that, we mean more than just the past 90 days of investment returns, right?

[00:11:57] What tends to happen? You've got these [00:12:00] committees that are made up of generally some really smart and almost always caring and talented individuals. And you bring them together. If you have everyone look at a page and focus on how an underlying, you know, equity manager performed for the last 90 days.

[00:12:19] Boy, everyone's going to have an opinion and everyone's going to want to weigh in. And, and I get that. I mean, that's in my nature and your nature too Devon. So, what we try to do is make sure that an investment committee yes, investment performance over the last 90 days is absolutely important. However, there are more macro items, like the three levers that you mentioned, what are the inflows, outflows, required return that are necessary in order for the charitable organization to advance its mission?

[00:12:48] Are we talking about new asset classes? Are we talking about absolute objectives, absolute return objectives? Are we talking about ESG strategies or new DEI initiatives? [00:13:00] So there's so much more beyond just the last 90 days of investment performance that can have, we would say a much more meaningful impact to the organization and to the advancement of their mission over time.

[00:13:13] We actually have one client that sort of a museum type of organization where they are super disciplined about this. They have a couple of investment managers on the committee and these folks are terrific, but we could go down a rabbit's hole pretty easily. And so, they have become, their CFO and actually their president had been really good about disciplining.

[00:13:36] Or installing a disciplined approach so that if a topic is raised, that sort of doesn't apply, they know where we would cover that typically throughout the course of the year, and they will redirect or recalibrate the committee. Yeah. And you know, one of the things Bob that you mentioned when you first made some comments about this item number five, [00:14:00] focusing on what really matters is absolute objectives.

[00:14:04] So I think for us in the investment industry, we get so focused on relative returns. Okay. We think about things in comparison to a benchmark. Did you outperform? Did you underperform? But really when it comes to an endowment pool or a foundation asset pool, what we're striving for is perpetuity and we're striving for intergenerational equity.

[00:14:28] So not to spend too much now at the expense of the future generations, but also not to save too much now and, and Rob the current generation of the spending stream that the endowment allows. So those absolute return objectives, let's say your spending policy is 4%, 4% plus inflation. That's really important to keep your finger on the pulse of, okay, is our asset pool keeping pace with that?

[00:14:56] If not, then we need to think about a way to address it. And that [00:15:00] needs to be a much longer timeframe than just the last 90 days. Another thing that I think we do that really helps clients in terms of avoiding getting caught up in, in the quarter-to-quarter performance is our governance calendar. So, the governance calendar really creates a disciplined framework around governance where over the course of a calendar year, we are covering everything that our clients as fiduciaries need to, to be responsible for.

[00:15:32] So we're reviewing and underwriting the investment policy statement. We're looking at portfolio construction in light of new capital market assumptions. We're doing a full fee analysis on an annual basis. So, having that governance calendar is really crucial in terms of framing the discussion and to your point about your museum client, that keeps that discipline going.

[00:15:58] You know, we can point to the calendar [00:16:00] and say, Oh, it just so happens that we'll be talking about that next quarter. So, let's not get too mired in the details this quarter, we'll

spend a lot of time on it next quarter, but for now let's stay at on the topic at hand. I think that's been really helpful.
[00:16:15] Excellent. And number six, and I will warn you this is sometimes easier said than done. Resist personal investment bias. We, we all have, uh, both known and unknown bias. And this one is challenging because again, many of the folks who serve on investment committees have some sort of tie either to investments or finance.

[00:16:38] They'll come to a meeting. And it's not always the easiest thing to sort of put on that particular charitable organization's investment committee cap, as opposed to your personal portfolio or what we're talking, uh, maybe another committee that you serve, that sort of thing. So, it's really [00:17:00] important.

[00:17:00] I find the best committees are comprised of investment professionals and other individuals that can really hone in on that specific charitable organization's mission and sort of set aside, Oh, this is an in-perpetuity time horizon. Let's not think about market timing or, or this is a, uh, you know, I'm hearing a lot about cryptocurrency or some other topic in the news that may or may not apply to that particular organization's mission.

[00:17:31] And I do agree, Bob, the same, that number six, resisting that personal investment bias. That seems to be a tough one for people to follow sometimes, but it's good advice. So, number seven is to keep the organization's time horizon at the forefront. And that's, you know, you touched upon that just a moment ago, understanding that an endowment or a foundation is supposed to exist in perpetuity.

[00:17:55] The, the approach that you take when you're overseeing an asset [00:18:00] pool like an endowment or a foundation is going to be different than how you would approach a retirement account or, you know, for when an individual has a, a non-perpetual time horizon. I also think it's really under important when thinking about that long-term time horizon to have investment committee members who understand the concept of cyclicality and that don't get caught in this concept of recency bias.

[00:18:28] What do I mean by that? Well, you tend to have periods where one particular style or market cap or one particular type of investing will outperform and then typically, you'll, that will be followed up by a period of time where the opposite type of investment strategy outperforms. And over time, you have reversion to the mean where, you know, you kind of have some semblance of balance, but you do see full market cycles, five, seven, 10-year periods of time where you'll have one type of investing that really [00:19:00] outperforms.

[00:19:01] And when it comes to building a portfolio for a perpetual asset pool, it’s important to keep in mind that you don't want to just hop on the, uh, the most recent trend and say, okay, growth has outperformed for the last 10 years, let's pile into growth. And then what do you know, the pendulum swings back in the other direction, you know, right when you don't want it to.

[00:19:23] I think that's, that's really important and that can be challenging for people who, who followed the market closely. Because they are up to speed. They know what the market trends have been, and it can be hard for them to not react to those short-term trends. But I think keeping that bigger picture in mind can be very helpful.

[00:19:44] I, I call it sometimes the danger of extrapolation. I remember at one of our client conferences, uh, boy, it's a number of years ago now. I, I actually researched this. The first Elvis Presley impersonator broke onto [00:20:00] the scene, I'll be directionally right, I'm sure I won't have it exactly right. But broke onto the scene in something like 1959, this young Jimmy Smith was the first Elvis impersonator.

[00:20:09] And if he charted out by the mid-sixties, there were 150 Elvis impersonators or whatever the number was. And then by the time of his death, that grew dramatically in the seventies then became a fad. Well, if you just continue to extrapolate that, by the year 2025, one in every three Americans would be an Elvis impersonator.

[00:20:31] And we of course know that's not the case. So, it really is sometimes a challenge to, to fight the recency bias and, and, and really calibrate and hone in on, wait, what is my organization and this mission's time horizon? And how can we create or construct a portfolio that gives us hopefully a fighting chance of, of advancing the mission?

[00:20:54] So that leads us to number eight, challenge and ask questions. But [00:21:00] for the right reasons. And what we mean by that is, listen, it's absolutely important that committee members understand, particularly before they vote on a strategy or before they allocate dollars, that sort of thing, but for the right reasons.

[00:21:17] And I would say that Devon and I, the vast majority of time, we see investment committee members checking their egos at the door and really having the charitable organizations best interests at heart. But other times on rare occasion, you'll see investment committees perhaps grandstanding, or just proving that they're knowledgeable.

[00:21:40] Or whatever the case may be, just really not focusing on the task at hand, which is how can we have this portfolio constructed in a way to hopefully advance the mission? Yeah, I think checking the ego at the door is such an important piece of advice. So, I sit on a volunteer investment committee, obviously, in addition to [00:22:00] my work in serving investment committees.

[00:22:02] In this particular case, the advisor is a firm that we sometimes compete against. So, I would consider them a competitor. But if that advisor brings to the investment committee meeting a recommended, a recommendation, I'm not going to disagree with them just for the sake of, you know, trying to cut them down. That doesn't serve the nonprofit that I am trying to serve.

[00:22:26] I am very careful about I only raise objections if there is a very valid reason to do so. And most of the time there's not, I think checking that ego is a really important piece of advice. So, number nine on our list is to remain curious. I think that the best investment committee members are those who are constantly learning new things.

[00:22:51] They're trying to learn about how the portfolio can help advance the mission of the nonprofit. Some of my strongest [00:23:00] committee members, I will often see when, when we host a webinar or, you know, some type of an educational event, we often get after the fact a, a list of attendees. And oftentimes I will see people crop up on the list who are some of my strongest committee members.

[00:23:19] And it might have been a webinar topic that doesn't relate to their work with this nonprofit at all. Maybe it's about a retirement plan oversight and you know, they're on an endowment investment committee, but it's folks like that that are constantly curious and trying to learn more who make the best types of investment committee members, because they're constantly trying to absorb that knowledge.

[00:23:43] Yeah. That makes me think of there's a professor based in California and she talks about the growth mindset versus the fixed mindset. And it's not a coincidence that some of your best committee members are [00:24:00] attending and learning and wanting to grow and improve and do better. So that's terrific. And then number 10 on our list is to utilize outside expertise.

[00:24:10] So I think it's really important for committees to acknowledge where they might lack expertise and hire outside providers. So, for instance, if you don't have a legal background, you certainly wouldn't try to provide legal advice for yourself, same with accountants. So of course, you know, it completely makes sense to outsource those types of services.

[00:24:33] In, in many cases, it may make sense with regard to the investment portfolio to move to an OCIO framework, an outsourced chief investment officer framework, where you might acknowledge, Oh, our committee doesn't meet frequently enough, or we don't have enough investment expertise on our committee to make well-informed decisions.

[00:24:53] Or maybe we can't make a decision to save our lives. You know, it takes us six months to just, uh, [00:25:00] approve a new manager. So, in that case, it may make sense to move to an OCIO framework because you'll know that the portfolio will be run more efficiently. But I think just generally speaking, utilizing that outside expertise and letting the experts really assume ownership over the parts that you know, you're not an expert in, then you can focus on fulfilling the mission of the organization.

[00:25:26] Absolutely. So, let's recap the top 10. Number one, assemble the right committee for the right reason. Number two, appoint a talented, diplomatic and engaged chair. Number three, conduct pre-calls with staff and the advisor, and perhaps even include the investment committee chair. Number four, use smart logistics in terms of planning and structuring the meetings and such.

[00:25:51] Number five, focus on what really matters, not just the past 90 days of investment returns. And then number six, try to [00:26:00] avoid personal investment biases creeping into oversight of the endowment or foundation. Number seven, keep the perpetual time horizon at the forefront of your mind. Number eight, challenge and ask hard questions, but do that for the right reasons, not just to grandstand.

[00:26:19] Number nine, remain curious, and then number 10, utilize outside expertise where it's warranted. So, we hope this has been useful and that investment committee members can take this information, build on it and use it to make their investment committees even more productive. Before we wrap things up, Devon, I'll throw a curve ball at you.

[00:26:40] We typically ask our guests, uh, what's a pandemic silver lining or something that you enjoy doing. I will ask you with hopefully us being on the backend of the pandemic and things starting to open up some, what is something that you look most forward to doing once we're able to? Oh, gosh, [00:27:00] so many, oh my goodness.

[00:27:02] Probably one of the things I am looking most forward to is our next-door neighbors are our best friends. They were our best friends before they moved in next door. And we always have a big dual summer party with hundreds of people, old people, young people, tons of kids. We get an ice cream truck. We have bounce houses, a dunk tank.

[00:27:24] So that's always the highlight of the summer. And last year it was supposed to be our fifth annual summer party and it was canceled. So, this year it's going to be bigger and better than ever. We just can't wait. That's wonderful. Just terrific. For me, I would say, and there are several things, like you said, so many things we look forward to doing, but, uh, I'm Italian.

[00:27:46] My mother is Italian and I have not hugged her in over a year now. I've just, I've looked forward to hugging her and I'm a bit of a hugger as it is anyways. So, look forward to, you know, not only seeing folks, but, [00:28:00] but actually being able to have more contact. So, any parting words here, Devon, with respect to the topic?

[00:28:07] No, I think, uh, I think we about covered it. I think these are all good pieces of advice and should be pretty simple for every investment committee to follow. Agreed, and to our last point that Devon made in number 10, the OCIO or outsourced chief investment officer we'll point listeners to an article that our colleague Matt Porter recently authored.

[00:28:26] Which explains just what OCIO is, and also speaks to the pros and cons of using an OCIO or outsourced investment program. We'll provide links in the show notes. So, to all you good stewards, thanks for investing time to help your nonprofits prosper. We'll connect with you soon on the next episode.

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