

GOVERNANCE SERVICES

REDEFINING INVESTMENT COMMITTEE ROLES

MAY 2013

Many institutional investment committees are reconsidering how they implement their investment policies. Reasons for this phenomenon are well publicized and include the desire for nimbleness, concern about increased investment complexity, and the challenge of increasing volumes of information to process.

This Governance Update provides practical steps designed to help investment committees and institutional staffs think through the governance framework and tailor it to the current committee's needs and preferences.

STEP 1: TAKE A STEP BACK

Focus on the mission. Reread the mission statement and remember why the organization exists. Remind the interested parties of the timelessness of the mission; acknowledge that the means to achieve the ends can evolve over time. This puts the remainder of the conversation in the proper context.

STEP 2: REVIEW ROLES

Separate the "what" from the "who". Consider that there are core duties that must be, or should be, retained within the organization (either by the board, investment committee or staff) and there are some that can, or should, be implemented by a third party (money management, audit, custody, etc.). Beyond that there exists a great deal of flexibility.

STEP 3: SURVEY STAFF AND INVESTMENT COMMITTEE

A series of survey questions might include the following:



INVESTMENT GOVERNANCE SURVEY

Investment Objectives Decisions

Who should have ultimate responsibility to:	Board	Investment Committee	Staff	Consultant/ Money Manager	Not Applicable
1. Define the long term objectives of the portfolio?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. Set the policy regarding spending needs?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Set the policy regarding administrative and manager fees?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. Set the policy regarding overall liquidity of the portfolio?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. Set the policy regarding types of investment structures to allow (Mutual Funds, Commingled Accounts, Limited Partnerships)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. Monitor the Total Portfolio performance and risk?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Asset Allocation Decisions

Who should have ultimate responsibility to:	Board	Investment Committee	Staff	Consultant/ Money Manager	Not Applicable
1. Set the broad policy ranges for Growth, Risk Reduction and Inflation Protection Assets?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. Set the policy on which asset classes or types of strategies to exclude from the portfolio?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Make the tactical asset allocation decisions based on current market environment?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Manager Decisions

Who should have ultimate responsibility to:	Board	Investment Committee	Staff	Consultant/ Money Manager	Not Applicable
1. Select the underlying traditional managers for the portfolio?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. Select the underlying alternatives managers for the portfolio?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Decide when to increase, decrease or eliminate exposure to a specific manager?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. Work with managers on fee negotiations and manager contracts?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. Monitor manager performance on an ongoing basis?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Portfolio Operational Decisions

Who should have ultimate responsibility to:	Board	Investment Committee	Staff	Consultant/ Money Manager	Not Applicable
1. Make rebalancing/ cash management decisions?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. Coordinate manager and portfolio transitions?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Coordinate wires and capital calls?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. Coordinate subscription documents?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. Work with Auditors on routine and ad hoc requests?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. Work with custodian?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7. Manage portfolio risk exposures?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Additional organization specific questions might apply.

STEP 4: COMPILE, CONVERSE, CONSTRUCT

After the results are compiled, the investment committee and staff members should review the data, discuss areas where there is a lack of consensus, and decide which duties to re-allocate based on current preferences.

CONCLUSION

Separating the “what” from the “who” allows boards, investment committees and institutional staffs to construct a framework for their ideal work plan. With such a blueprint in hand, the search for the right partner and the appropriate level of service can be more focused and relevant.

Contact Us

Let us help you meet your governance challenges.

For further details on the issues discussed in this paper, please contact the authors or your Mercer consultant.

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- More than 20 years of Endowment and Foundations consulting experience
- More than 180 clients
- \$34 billion in asset under advisement*

OUR SERVICES

- Investment strategy development
- Strategic asset allocation
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- Performance evaluation
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- Spending policy analysis
- Proprietary research, software and databases
- Training and board/committee education
- Outsourced CIO solutions

RESEARCH

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(*Global figures as of December 31, 2012)

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