



Investment Committee & Endowment Management Best Practices

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Investment Committee Best Practices

Build a Diverse and Qualified Committee

- Include individuals with relevant expertise in finance, investing or accounting
- Try to recruit diversity of backgrounds and perspectives to avoid groupthink
- Maintain a size that allows for productive discussion (typically 5 to 9 members)
- Consider term limits and / or rotating committee chair

Maintain Fiduciary Responsibility

- Act in the best interest of the organization, with care and loyalty
- Avoid conflicts of interest and disclose any potential concerns
- Keep minutes and documentation of all decisions (including rationale) and discussions

Coordinate with Other Governance Bodies

- Align investment decisions with finance, audit, fundraising committees
- Ensure that investment strategy supports the organizations operating budget and long-term goals
- Ensure transparency and accountability for donors, auditors and regulators

Investment Committee Recruitment of New Members

Recruiting new members for a nonprofit investment committee requires a thoughtful, strategic approach to ensure you attract individuals with the right expertise, commitment, and alignment with your organizations mission. Here are some best practices to guide your recruitment process:

Define the Role Clearly

- Created a detailed position description outlining responsibilities, time commitment, terms limits, expectations (e.g., attendance, giving, confidentiality), desired qualifications (credentials and or relevant work experience)

Use Your Networks Strategically

- Start with warm introductions through current board members, donors, and professional contacts
- Ask for recommendations from existing committee members, your finance team or partner organizations
- Leverage LinkedIn or professional groups

Conduct a Thoughtful Vetting Process

- Interview candidates with 2 to 3 people (e.g., executive director, board treasurer, committee chair)
- Assess investment acumen, collaboration skills and nonprofit mission alignment
- Check references, especially around ethics and reliability

Investment Committee New Members

Once you have recruited a new investment committee member, you must successfully integrate them into your organization. Here are some best practices to guide your onboarding process:

Onboard Effectively by provide new members with:

- Investment Policy Statement (IPS)
- Recent performance reports and committee meeting minutes
- Overview of the nonprofit's finances and goals
- Offer a mentor (a current committee member) for the first 6 to 12 months

Engage Continuously

- Keep members informed on organizational developments between meetings
- Invite members to organizational events
- Show appreciation of their time and expertise

Request for Proposal (RFP)

Organizations should have a documented Request for Proposal Process

- If your organization has never done an RFP before, you should undertake the process
- RFP's should be done every 3 to 5 years
 - This interval is common to ensure due diligence and fiduciary oversight
- Or After Significant Events
 - Investment manager changes investment process
 - Shifts in the organizations goals, risk tolerance or liquidity needs
 - Regulatory or compliance changes

> Benefits of Regular RFPs

- Ensures competitive fees and service quality
- Brings fresh perspective and new strategies to the table
- Demonstrates fiduciary responsibility and transparency

Investment Policy Statement (IPS)

Organizations should have an Investment Policy Statement (IPS) to ensure that their financial assets are managed responsibly, consistently, and in alignment with their mission and long-term goals.

Clarifies Investment Objectives

- An IPS defines the organizations investment goals (e.g. capital preservation, income generation, or growth), helping align investment decision with financial needs and mission objectives

Establishes Governance and Accountability

- It outlines who is responsible for making investment decisions (e.g. board, investment committee, advisors), reducing confusion and improving oversight and fiduciary accountability

Guides Asset Allocation and Risk Tolerance

- The IPS sets clear guidelines on asset allocation and acceptable risk levels, which helps maintain a balanced portfolio appropriate for the organization's time horizon and cash flow needs

Investment Policy Statement (IPS) continued

Promotes Consistency Across Leadership Changes

- As board members or staff change over time, the IPS provides continuity and consistency in investment practices, avoiding abrupt or reactive shifts in strategy

Facilitates Communication with Advisors

- It gives external managers or advisors a clear framework to operate within, helping ensure that their decisions align with the organization's values and objectives

Supports Ethical or Mission-Aligned Investing

- Some non-profits want their investments to reflect their values and an IPS can formalize these priorities

Demonstrates Fiduciary Responsibility

- Having an IPS shows donors, regulators, and other stakeholders that the organization is managing its assets prudently, which builds trust and credibility

Investment Policy Statement (IPS) continued

Potential downsides to if there are too many restrictions in an IPS

Limited Flexibility

- Excessive restrictions can reduce the ability to adapt to changing market conditions or seize new investment opportunities. For instance, if an IPS prohibits certain asset classes or geographic areas, it could mean missing out on potentially lucrative investments

Relative performance Risk

- Some restrictions might prevent the investment portfolio from being properly diversified, which could lead to underperformance compared to broader market indices. For example, a restriction on certain asset classes may result in a higher allocation to low return asset classes

Increased Complexity

- Including too many specific restrictions can make the IPS more complicated to manage and enforce. This could lead to confusion for the investment manager, as they have to adhere to many rules that may not always be practical or beneficial in every market situation

Investment Policy Statement (IPS) continued

Lack of Diversification

- Restrictions on particular asset classes, industries, or investment vehicles could limit the diversification of the portfolio. Lack of diversification increases the risk, as the portfolio is more susceptible to volatility within the remaining allowed sectors

Difficulty in Monitoring

- If the restrictions are too granular or detailed, it could be hard for the investment committee or auditors to monitor for compliance. This can create an ongoing burden for the investor or the investment manager, making the overall investment process less streamlined

Investor Frustration

- Overly restrictive policies might create frustration among investors, especially if the restrictions are not aligned with their long-term goals or they feel they are missing out on growth opportunities due to arbitrary limitations

Overall, while an IPS with restrictions can provide necessary guidelines, it's essential to strike a balance to avoid stifling the flexibility and performance potential of the investment portfolio.

Performance Evaluation

Performance evaluation is a critical function of an investment committee, ensuring fiduciary responsibilities are met and investment objectives are achieved efficiently. Best practices for performance evaluation of investment committees include both qualitative and quantitative assessments, ensuring accountability and transparency.

Define Clear Roles & Responsibilities

- Establish formal performance evaluation process in the IPS
- Clarify the responsibilities of the asset manager vs. the investment committee

Set Measurable Goal and Benchmarks

- Investment Policy Statement (IPS) defines return targets, risk tolerance and performance benchmarks
- Evaluation performance relative to benchmark (e.g., CPI + X%, policy index, peer group comparisons)

Conduct Regular and Structured Reviews

- Perform evaluations annually (minimum), using a structured process
- Include both retrospective (performance over past period) and prospective (risk posture, market alignment) reviews

Performance Evaluation continued

Utilize Both Quantitative and Qualitative Metrics

Quantitative Metrics:

- Portfolio returns vs. benchmark (e.g., net of fees over 1,3,5 years)
- Risk-adjusted returns (Sharpe Ratio, Information Ratio)
- Peer group comparison
- Upside vs. Downside Capture
- Cost analysis (fees paid, transaction costs)

Qualitative Metrics:

- Decision-making quality and timeliness
- Adherence to IPS and governance policies
- Effectiveness of oversight and communication
- Engagement level and meeting presentation effectiveness

Spending Rate Policy

A spending policy for an endowment is a critical component of its financial management. It determines how much of the endowment's assets are spent each year to support the mission of the institution while ensuring long-term financial sustainability.

Set Objectives:

- Define the purpose: growth, income, preservation or a mix
- Balance present needs with future obligations

Flexibility and Governance Review:

- Allow for adjustments in extreme market conditions or emergencies
- The policy should be approved by the board and reviewed at least annually

Financial Sustainability:

- Ensures that the endowment lasts in perpetuity by balancing current spending with the need to preserve purchasing power over time
- Provides predictable, stable income streams to fund operations, scholarship, or programs, regardless of market volatility

Selecting an Investment Advisor - The Four P's

Selecting an investment advisor to manage your organizations endowment is time consuming and can be quite challenging for an organization's investment committee. We recommend organizations focus on the Four P's outlined below:

People/Organization

- Who are the folks who will be managing your relationship?
- Do you get a dedicated Relationship Manager to handle administrative tasks like account opening, updating authorized signers, money movement, stock gifting, compliance reporting etc?
- Do you get a dedicated Portfolio Manager who manages the accounts within the IPS guidelines. That implements asset allocation and is involved in the portfolio construction process?
- Does the organization have a long track record of managing money for non-profits? Are they local to your community? Do they have adequate compliance / oversight and errors and omission insurance coverages?

Philosophy

Process/Portfolio

Performance

Selecting an Investment Advisor - The Four P's

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People/Organization

Philosophy

- Advisor full authority or obtain preapproval for changes?
- Active or passive investments?
- Strategic or tactical asset allocation?
- Downside protection or upside capture?
- Liquid public investments or private limited liquidity investments?
- Separately managed account or mutual fund solution?

Process/Portfolio

Performance

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People/Organization Philosophy

Process/Portfolio

- Rebalancing frequency
- Asset class ranges
- Turnover
- Income
- Withdrawal timing
- Commingled accounts with sub-accounting vs. separate accounts

Performance

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People/Organization

Philosophy

Process/Portfolio

Performance

- Absolute vs. relative
- Static benchmark vs. dynamic benchmark
- Total account performance vs. asset class performance
- Investment advisor style
 - Quality / value manager underperforms in a bull market is expected
 - Technology / growth manager underperforms in a bull market is unacceptable

Contact Us

At Rockland Trust Investment Management Group, we want to get to know YOU.
We deliver a custom approach to conquering your goals. Contact us today.

Ryan Martin

Vice President & Portfolio Manager

Investment Management Group

Office 781-982-6259

Ryan.Martin@RocklandTrust.com

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