

Endowment Investment Decision Making: RAIDs Analysis

January 2020

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Best practice in Investment Committee Governance: “RAID Analysis” introduction

- Institutional Investment Committees (IC) have the ability to impact their institution’s investment performance in a material way through the quality of the committee members and their governance process. This note stems from our experience in observing our most effective investment committees over the past 15 years of Partners Capital’s history where the Partners collectively sit in over 500 IC meetings per year.
- To communicate our learning on best practice for investment committee governance, we have deployed a decision-making mapping tool long used by business strategy consulting firm, Bain & Company.
- RAID analysis is a decision-mapping tool developed by strategy consulting firm, Bain & Company 20+ years ago.
- The tool itself is only part of the process of establishing decision-making clarity. The value of the tool is in highlighting with precision the role of each person or body involved in a decision. It is also helpful in recording, without ambiguity, all parties’ roles in all major decisions.

The process is:

1. Identification of all parties in the decision-making process
2. Listing of all major decisions expected to be taken
3. Mapping of each parties’ expected role in each decision
4. Circulation of proposed decision-making role to all decision-makers for comments
5. Finalisation and documentation of all parties’ role
6. Periodic review and refinement of RAID map

RAID Analysis: User Guide

- RAID analysis is presented in a matrix of decision vs participant in the decision making process
 - each participant in the decision-making process is listed in each column
 - each decision is listed in each row
- The role of each participant is defined by the following 4 possible roles:
 -  R = Recommend. This person recommends a decision to the decision-taker
 -  A = Approve. This person has a power of veto the decision
 -  I = Input. This person provides input and context to the decision
 -  D = Decide. This person takes the decision, subject to input, recommendations and veto
- There generally should be only one participant in the decision-making process with the A, D or R. There can be multiple “I’s” or inputs.
- RAIDs is not a process for assigning responsibility for actions; it is just for decisions. Separately, responsibility for various investment actions (e.g., manager monitoring, performance reporting) should be clearly assigned.

RAID Analysis: Example

Decision	Board	Investment Committee	Head of Investment Office	External Investment Adviser
1. Liquidity constraints for the XYZ investment portfolio (as specified in the IPS)	A	D	R	I

- Under the normal advisory or discretionary relationship, Partners Capital or other External Investment Advisor would make a formal recommendation to the Head of Investment Office (which is Input to the overall decision) as to the appropriate liquidity for the portfolio (Input)
- The Head of the Investment Office would formally make a recommendation to the full Investment Committee (IC) on liquidity limits. (Recommend)
- The Investment Committee would decide on the optimal liquidity (Decide)
- The Board would have final right of approval, with an effective veto (Approve)

RAID Analysis: Kings College Endowment Example

Investment Strategy Decisions

Investment Strategy Decision	Board	Investment Committee	Head of Investment Office	External Investment Adviser
1. Membership of the Investment Committee / Sub Committee	D	I	R	-
2. Overall investment strategy and overarching investment philosophy	A	D	R	I
3. Selection of appropriate risk : return objectives for the portfolio	A	D	R	I
4. Determination of annual distributable amount (spending level)	D	R	I	-
5. Liquidity constraints for the Kings College investment portfolio (as per the IPS)	A	D	R	I
6. Foreign currency exposure targets	A	D	R	I
7. Use of leverage and derivatives at portfolio level to manage risk	A	D	R	I
8. Overall asset allocation	A	D	R	I
9. Conflict of Interest Policy	A	D	R	I

Notes:

1. The External Investment Advisor formally “Recommends” on many matters to the Head of the Investment Office, although it is reflected here as just “Input” to the overall decision.
2. The Board Chairman or other selected Director could be substituted for the Board in providing Approval (veto over) some of these decisions, where it may be impractical to reach the board in time for decisions, or where the Chairman is better suited to assess such decisions.

RAID Analysis: Kings College Endowment Example

Investment Implementation Decisions

Investment Implementation Decision	Foundation Board	Investment Committee	Head of Investment Office	External Investment Adviser
1. Level of resource in internal investment office	D	R	I	I
3. Internal investment staff remuneration (ex CIO)	A	I	D	-
4. Internal CIO/Head of Investment office remuneration	D	R	-	-
5. Selection of an external Investment Adviser (OCIO)	A	D (+R)	I	-
6. Individual Asset Manager selection and redemption	-	A	D	R
7. Annual rebalancing of the portfolio	-	A	D	R
8. Selection of the Custodian	-	A	D	R
9. Tactical asset allocation (within the IPS target range)	-	A	D	R
10. Selection and modifications to performance benchmarks	-	A	D	R
11. Investment strategy and portfolio construction <u>within each asset class</u>	-	A	D	R
12. Day-to-day portfolio management decisions (not covered above)	-	A	D	R

Notes:

1. The above example reflects the normal “advisory relationship” in contrast to a discretionary relationship. For example, in a discretionary relationship, the external advisor would usually be deciding (D) on managers selected or redeemed.
2. In many cases, the Investment Committee may still want to inform the Board of these decisions before they are implemented, where they may have valuable input. But in most cases, we assume that the IC members have sufficient expertise and knowledge and the full Board need not be involved.



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