Investment Committee Best Practice

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The best performing investment committee ("IC") recognises its primary role is one of governance, not investing. Charles D. Ellis, the long-time Chair of the Yale University Endowment investment committee made this very clear in his often cited article on Best Practice Investment Committees, published in 2011 in the Journal of Portfolio Management. Charley stressed that the job of the investment committee is to ensure that those individuals who are responsible for investing the institution's assets are doing so in compliance with the agreed investment policy.

We believe that virtually every asset owning institution should maintain this clear dividing line between investment committee governance and investment strategy implementation. Often cited rationale for more 'hands on' investment committee involvement in direct investing activities includes instances where the endowment is of relatively small size, possesses few or less capable internal investment staff, or where IC members with strong investment experience oversee a relatively complex investment portfolio. None of these circumstances justify having the investment committee step in to manage the investments when qualified internal or external investment professionals can be found to manage the investment portfolio full-time. However, a more active investment committee is warranted in cases where there is no internal investment staff, but an outsourced investment office has been engaged. The role of the IC, in this case, remains one of governance, but where a subset of the committee takes the place of internal investment staff in monitoring the outsourced third party and managing any interactions between IC meetings. In any case, investment committee members should feel uneasy about holding responsibilities that entail management as well as governance functions.

Over the last 13 years, we estimate that our senior Partners Capital client portfolio managers ("Client CIOs") around the globe have collectively participated in over 4,000 investment committee meetings.[1] Adding our own experience to that of Charles D. Ellis, we believe that the best performing investment committee should:

1. Comprise members who bring relevant experience to the investment strategy that is complementary to that found with the internal portfolio management team and other members of the committee. This should include overall multi-asset class portfolio management experience and/or specific in-depth asset class investment management experience. Experience-based, but naturally biased views need to be balanced around the table. Charley suggested that a committee of 5-7 members was the ideal size.

2. Have an explicit understanding of the purpose and objective of the assets and a clear definition of success in determining whether the portfolio fulfils that purpose and meets that objective.

3. Create a clear Investment Committee Charter that outlines the roles and responsibilities of its members, support staff and, if applicable, external advisors. This document should outline the importance of IC meeting preparation and in-person attendance and will spell out the rules on investment committee member tenure to ensure fresh expertise is constantly being introduced to the committee whilst preserving collective familiarity with the portfolio. (See Partners Capital recommended draft IC Charter which also acts as the overall committee charter and the IC member contract covering the fiduciary duties of each member, terms of engagement and policies to which they commit – e.g., conflict of interest).

[1] Number is updated to reflect estimated logged meetings between 2006-2018.

4. Adopt a clear investment strategy (Investment Policy Statement – "IPS") that includes a set of assumptions about the organisation's risk tolerance, the portfolio's expected returns and the basis for establishing annual withdrawals. The IPS should also spell out the key portfolio parameters and constraints including, but not limited to, liquidity constraints; currency strategy; geographic diversification; maximum manager and underlying position size; environmental, social and governance considerations; and target asset allocation and ranges around that allocation.

5. Have a clear means of measuring short term and long term performance with clearly defined and investible benchmarks. Benchmarks used to assess performance should be distinguished from long term return targets which assess whether the institution's goals have been achieved.

6. Have straightforward evaluation criteria and processes for hiring managers to implement an investment strategy, and for identifying the circumstances under which a relationship with a manager can be terminated (or a clear process for hiring and firing managers through any external advisors).

Exercise sound judgement through a highly disciplined process built around routine (quarterly) meetings, with clear processes for making decisions, or having input to decisions as needed between committee meetings.

Investment committees generally meet four times a year as shorter periods of time generally comprise little new information. Meetings can last for anywhere between two hours or to a full day. Three hours is normal, with the first meeting of each year usually longer as it covers more discussion on the previous year's performance and the coming year's investment strategy. How these three hours are spent is of critical importance to the effectiveness of the investment committee.

Below, we present the agenda that we believe makes the best use of time in institutional investment committee meetings. The role of the IC Chair is critical to the success of the committee. The most effective IC Chair sets out a clear agenda for each meeting, ensures materials have been sent out and read in advance and then, during the meeting, encourages input and discussion from the committee members, drawing on specific individuals where they are most likely to have relevant insight on a particular topic.

We believe the most effective Chairs of institutional portfolio investment committees have a clear view of what past and present external exposure committee members have had to other institutional portfolio management situations and draws on that experienceose individuals to bring that perspective to bear on for the current portfolio being discussed. The most effective meetings occur when specific individuals have been given advance notice of areas where the Chair would like input on a key topic. The usual meeting effectiveness rules apply.

Most meetings will cover the following 4 topics as the standard part of the agenda:

1. Investment Performance Assessment – targets and benchmark establishment and performance attribution against the target and benchmark.

2. Macroeconomic assessment and related tactical asset allocation moves.

3. Monitoring compliance with the investment policy focused on investment philosophy, risk level, liquidity, asset allocation, currency exposure and manager sizing and concentration.

4. Pressure testing internal team (and/or external advisor's) processes (e.g., risk management, manager due diligence, tactical asset allocation).

Below are special topics which may be brought into IC meetings on a less frequent basis, usually annually (rotating from one quarterly meeting to the next):

- Revisiting the institution's purpose and aligning that purpose with the right investment approach (e.g., incorporating socially responsible and mission driven investing).

- Plan responses to potential macroeconomic or financial market events – are we committed to holding to risk budgets and rebalancing in all crisis scenarios?

- Approve individual Asset Class Strategies and related broad asset manager specification (cycling through equities, liquid credit, absolute return, private equity, etc.).

- Assessment of endowment the institution's internal investment management resources (including optimal level of resource, remuneration, incentives, hiring and firing).

- Assessment of external investment advisory/OCIO resources (including incentives, hiring and firing).

- Investment Committee membership, tenure, roles and meeting process.

- Trustee reporting and communication, and ongoing assessment of their risk tolerance

Discussions outside of the 4-point agenda and the list of special topics are likely to be off point, with some exceptions where institution-specific problems have arisen that need to be addressed. You will note that the above list does not include individual manager due diligence or manager-specific performance discussions. Discussions on individual managers are generally only warranted as a means of testing the extent to which the internal team or external adviser is on top of the managers. Most of our clients are comfortable with the following process for manager decisions, where we are involved as the outsourced investment office:

1. An investment strategy for every major asset class is agreed with the committee, documented and reviewed annually.

2. Where an upgrade to the existing manager line-up is flagged or a tactical skew identified, Partners Capital will discuss this change with the internal Finance Director ("FD") and undertakes a review of the options.

3. Partners Capital determine whether a manager change or new addition is appropriate, informing the client's internal FD and IC Chair.

4. Partners Capital recommends a suitable asset manager to the internal FD and he or she conducts their own due diligence on our due diligence (which may include meeting the manager).

5. Any committee members with subject matter expertise may be drawn into the decision.

6. Assuming no reservations emerge from the above process, Partners Capital executes the investment under the agreed investment mandate.

7. The committee is informed of the decision at the meeting following execution.

Where there is no external advisor, the internal CIO takes the place of Partners Capital in the process laid out above.

As we reflect on our past experience, we have no doubt that good investment committee governance can have a material impact on an institution's long term investment performance.

Firm Profile

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The firm was founded in 2001 by investment professionals seeking an independent and conflict free adviser to provide portfolio construction advice and rigorous analysis of investment opportunities. From its initial focus as the "money managers to the money managers" with a base of 70 clients, Partners Capital has grown to become an adviser to endowments and foundations as well as prominent family offices and successful entrepreneurs across the U.S., U.K., Europe and Asia. Endowments have become a large proportion of the institutional client base, which now includes Oxford and Cambridge Colleges, and many of the most highly respected museums and charitable foundations located around the world.

Among Partners Capital services are bespoke outsourced investment solutions for endowments, foundations and tax-efficient and tax-deferred investment strategies for taxable private clients. Partners Capital predominantly advises on entire portfolios but also specialty strategies, such as Private Equity or Private Debt strategies.

Partners Capital deploys an investment philosophy that embraces many of the powerful diversification benefits of the "endowment model" of investing. However we apply a more dynamic approach to asset allocation, which seeks to clearly delineate between performance derived from market factors as opposed to the skill of individual managers.

Today, with over $26 billion of assets under management, Partners Capital's clients comprise an equal mix of private individuals and institutional clients. Many of our clients are among the most sophisticated investors in the world, with a sound understanding of investment principles and experience across multiple asset classes.

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