FAQs

Timeless Strategies of Highly Effective Investment Committees

AGB

These FAQs are based on a **2023 interview** conducted by Nicole Wellmann Kraus, president and chief client officer at Strategic Investment Group, with Charles "Charley" Ellis, founder of Greenwich Associates and former chair of the Yale University Investment Committee.

What is an investment policy statement?

An investment policy statement is a roadmap for investment committees and serves as a way to bring all members into the conversation. It should be explicit in its long-term objectives. It should also outline the role and responsibilities of the parties involved and its approach to risk, risk measurement, and benchmarks.

What is the best test of an investment policy statement?

The best test of an investment policy statement is to validate that it allows for capable people to do what is intended and that it can be turned over to another committee without conflicts.

What is institutional memory in investment committees?

Institutional memory is critical for a committee's success, especially for long-term programs such as endowments. It refers to recording and reflecting on all decisions made, explaining the "why" behind them, and revisiting those decisions in the context of the long-term goals and objectives of the institution.

What is the role of the committee chair in an investment committee?

A great committee chair is crucial for the success of an investment committee. The chair needs to do the work required to enable the committee to function at its best. The chair should be selective in the members they invite to the committee, orienting them to the role and making sure they understand the expectations, to ensure that every single meeting follows a shared teamwork process. Regularly reviewing the effectiveness of the committee and its members is also a very important role of the committee chair.

What is the ideal committee size for an investment committee?

A committee size of five to seven people is ideal, and smaller committees with a long-term, intense commitment are generally better than larger or less specialized groups.

What is the importance of having the right people and diversity on an investment committee?

A mix of older and younger individuals, as well as people who are not on the governing board but have a wide range of experience and talent, is important for an investment committee. A diverse range of individuals in terms of gender, age, race, background, socioeconomic status, and professional expertise ensures that the committee is well-equipped to make informed and effective decisions.[1]

What is the importance of having a term limit on committee membership?

There are different thoughts about term limits. While each committee has policies regarding term limits, it may be wise to consider having candidates on the committee participate in committee meetings for a year before they decide to accept the role and before the committee makes a decision on their membership. You can learn a lot in a year of working with someone and seeing how they participate and contribute. After that, a term limit has one wonderful advantage: It's not personal. It's arbitrary.

What is the best way to ensure members contribute effectively to an investment committee?

If there are term limits, the chair of the committee should also have some form of assessment mechanism to ensure members are contributing effectively. Many times, if there's a poorly behaved member, the board waits for them to term out instead of having an assessment and a conversation. This is a lost opportunity to address the issue and is a disservice to the committee. Instead, consider sitting with the disruptive member and sharing their assessment score relative to the others. More often than not, this results in an immediate behavior change.[2, 3]

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Nicole Wellmann Kraus

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