Six essentials for nonprofit investment committees

A guide for new members

Vanguard®

Few investment roles are more challenging—and fulfilling—than that of a nonprofit investment committee member.

For more than two decades, Vanguard has worked with a wide variety of investment committees, both large and small. Those years have taught us that serving on an investment committee is an experience like no other. We've also observed that the level of effectiveness on committees can vary greatly. Some committees excel, while others struggle. With that in mind, this guide is meant to help you get up to speed quickly while avoiding some potential pitfalls.

We hope you find this booklet valuable, whether you're joining a committee for the first time or just looking for a quick refresher on the six key focus areas for effective committee members.

Making a successful transition

Congratulations on being selected as an investment committee member. Investment decision-making groups may draw their members from volunteers, the board of directors, or staff. Your organization may call this group a variety of names, but we'll use the term "investment committee" to refer to those who have fiduciary responsibility for making decisions on behalf of an organization's pool of assets.

If you've never worked on a committee, a little preparation is in order. The better you understand how the investment committee functions and your role on it, the sooner you can step in and add value.

Based on Vanguard's experience working with hundreds of investment committees, both large and small, we've outlined six focus areas to help you successfully transition to your new role:

1. Recognizing your fiduciary responsibilities.
2. Deepening your understanding of the organization and its mission.
3. Getting to know the personalities and backgrounds of your fellow committee members.
4. Understanding the context for the committee's decisions.
5. Becoming familiar with the portfolio.
6. Expressing your questions, ideas, and insights.

As a new member, your first meeting is key: It sets the tone for everything that follows.

A brief look at fiduciary responsibilities

As a fiduciary, you must always act prudently and in the best interests of the organization you serve. This means applying personal experience, judgment, and knowledge in concert with understanding the regulatory framework and mission of your organization.

Under most state laws, nonprofit fiduciaries have three major duties:

- **Duty of care.** Nonprofit fiduciaries must use the same degree of care, skill, and diligence that a prudent person would use in handling corporate affairs. Committee members can fulfill their responsibility largely by being informed about matters of importance to their sponsoring organization. This means keeping apprised of relevant information before making important decisions or acting on behalf of the nonprofit.
- **Duty of loyalty.** Fiduciaries must put any personal or private interests aside and always act in the best interests of their sponsoring organization. Self-dealing, conflicts of interest, and even the appearance of impropriety must be avoided at all costs. Self-dealing occurs when a fiduciary stands to personally gain financially from a nonprofit decision.
- **Duty of obedience.** Nonprofit fiduciaries must comply with applicable fiduciary law while keeping the organization true to its mission.

In addition to these three main duties, Vanguard has identified five additional responsibilities essential to good fiduciary conduct:

- **Fiduciary liability.** Investment committee members must understand their fiduciary responsibilities and the potential liabilities of serving on the committee.
- **Investment committee organization.** Committees should be carefully organized and staffed with individuals who understand their organization's mission and what they must do to support it.

- **Investment selection and monitoring.** Fiduciaries must select appropriate investments that are consistent with the unique needs of the organization. They also must decide whether a prospective investment manager's approach and philosophy fit the portfolio's objective.
- **Portfolio costs.** Costs incurred by the portfolio must be reasonable, paid out by the portfolio, and aligned with your spending policy.
- **Administrative oversight.** Investment committee members must oversee the creation of such documents as the investment committee charter and investment policy statement, ensure the investment committee is operating according to those documents, and satisfy all legal and regulatory rules issued by relevant agencies.

Understanding the organization and its mission

Everyone has a different reason for joining an investment committee. For some, it's a personal connection to the organization's mission based on life experience. For others, it's a link forged through family, friends, or colleagues. No matter what the original reason, it's a bond that will likely intensify over time as you see the vital role that the committee plays in helping the organization achieve its goals.

Devoting time to learning more about the organization is an essential part of your education as a committee member. After all, the portfolio of assets your committee oversees is a means to an end, not an end unto itself. By deepening your understanding of what your organization stands for and why you were selected to serve, you'll have a framework to inform your decision-making and insights into how you can best contribute.

Getting to know your fellow committee members

For perspective on your committee's various personalities, schedule time with the chair of your committee or a seasoned member before your first meeting. Ask the chair to describe a typical meeting. Who usually speaks? What happens when a conflict arises? Are there opportunities to improve meeting dynamics? On which topics does the committee spend most of its time? And to get a sense of the members' backgrounds, levels of expertise, and achievements, request copies of their resumes or curricula vitae.

Ideally you'd like to form a mentoring relationship with the committee chair to foster your development and increase your effectiveness on the committee. This doesn't have to be a major commitment. A half hour on the phone, periodic emails when you have a question, and an occasional lunch together should establish a relationship that will give you a sense of how your experience and expertise can benefit the committee.

Learning about the organization, its mission, and its finances can pay real benefits. It helps connect investment decisions to the broader organization.

Context is key

Investment committees don't operate in a vacuum. They are bound to their parent institutions, and their decisions drive the organization's ability to achieve its overall mission or objectives. But exactly how that process works varies from committee to committee. To understand how your investment committee operates, you need to get a feel for the challenges and issues it regularly faces.

For example, in some organizations, the investment committee is free to focus solely on the management and oversight of the portfolio. In smaller organizations, committee members may wear multiple hats and may be involved in fund-raising, spending, and operational decisions. For a more holistic view of the investment committee's environment and financial constraints, review the following documents:

- **Investment committee charter.** This clearly defines roles and responsibilities. A well-formulated charter is the foundation of the committee's mission, and should change only if the organization's mission changes.
- **Meeting minutes for the last year.** Reviewing minutes from previous meetings will give you a better sense of how the committee operates and help you make more informed decisions.
- **Annual reports and spending policies.** These can offer useful snapshots of the organization's finances, programs, and commitments.
- **Relevant reports.** For more details on your organization's finances, request a copy of its balance sheet, quarter-end statements, and income statement. These will give you a sense of the state of the organization's finances.
- **Consultant information.** If your organization works with a consultant, it's helpful to determine the consultant's role. Is it research only or does the consultant act as a sounding board when the committee is making decisions?

Getting to know the underlying portfolio

If possible, try to set up time to connect with the investment managers directly—either through a separate meeting or via a conference call. It's also helpful to read the investment policy statement (IPS) to see the broad outlines of how the portfolio is managed. For example, is the portfolio designed to operate in perpetuity? Does the organization often tap short-term assets for its operating needs? Are there annual spending requirements?

As you review this document, try to get a sense of:

- The portfolio's purpose and the philosophy behind it.
- Risk profile/tolerance. What is the committee's view on the risk of losses versus the opportunity for gains?
- The managers responsible for investing the assets.
- The process the committee follows in selecting, monitoring, and firing managers.
- The type of holdings that make up the portfolio and the rationale for their selection.
- How the investment policy relates to the organization's financial commitments and spending.

A clearly articulated, realistic IPS defines a portfolio's purpose and helps measure a committee's success at fulfilling its goals. It also can help establish guidelines for communication with outside investment managers, consultants, and other fiduciaries.

As part of becoming familiar with the portfolio, it's also important to consider the costs involved in managing it from a variety of perspectives. For example:

- What fees are assessed, and how are they assessed?
- What incentives do the managers have based on their fee structure?

Stand and deliver

Becoming familiar with your fiduciary responsibilities, the personalities on the committee, the context for decisions, and the composition of your investment portfolio will help smooth the transition to your new role. Now you can build upon that foundation and become fully engaged in the process by following these guidelines:

- Beware of personal investing attitudes and maintain your focus on the organization and your role as a fiduciary. It's not about your beliefs; it's about building a portfolio that reflects the organization's investment philosophy.
- When debating a decision, freely express your opinion and the rationale behind it.
- Cultivate an atmosphere where spirited debate helps the committee realistically appraise various courses of action. Don't be afraid to challenge the majority point of view.
- Keep an open mind and carefully weigh the available facts, even if they don't appear to support your conclusions. Avoid a rush to judgment: If you need more time or information, recommend tabling an issue.
- Learn the relevant issues facing your committee. Look to your fellow members for recommendations on articles, books, or conferences that may help.
- Commit to attending all scheduled meetings. Also avoid distractions and remain fully engaged during discussions.

Only by leveraging your experience and freely sharing your ideas and opinions can you foster thoughtful decisions and help your organization achieve its long-term goals.

Working on an investment committee requires a hefty time commitment, but it's one of the most rewarding ways to serve an organization whose mission aligns with your own.

Research and tools

Your education as an investment committee member has just begun. To stay current on key issues that affect your role overseeing your organization’s portfolio, check out Vanguard’s online Nonprofit Resource Center:

vanguard.com/nonprofitresourcecenter

In addition to valuable information on fiduciary fundamentals and ongoing governance, you’ll also find an extensive Fiduciary Toolkit full of examples, tools, and references to increase your investment committee’s effectiveness.

institutional.vanguard.com
888-888-7064

P.O. Box 2900
Valley Forge, PA 19482-2900

Connect with Vanguard® > institutional.vanguard.com > 888-888-7064

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