Positioning new investment committee members for success

New investment committee members often have plenty to learn, whether it’s about their new role, the committee’s approach to investing, or the organization. An ‘onboarding’ process can give new members the confidence and understanding to add value early on.

The situation: Every investment committee member shares the unique fiduciary responsibility of making decisions on behalf of the current or future beneficiaries of a pool of assets.

The challenge: Fulfilling that role can be hard for new committee members, many of whom are either not given enough information or are overloaded with data that they struggle to get through.

Vanguard conclusion: Our experience has shown that committing to a dedicated onboarding process by helping new committee members focus on a few key areas can go a long way toward ensuring a successful transition to their new role.

Over the last two decades, Vanguard has worked with thousands of investment committees ranging from those for pension plans to those for educational and charitable institutions, and from those overseeing the largest asset pools in the United States to those entrusted with more modest resources. Although the size of assets being overseen may vary, a committee member’s fiduciary responsibility for them does not. Our experience has taught us that some advance preparation is in order for investment committee members taking on a fiduciary role for the first time. Ideally, the committee chair or a seasoned member helps those joining to get off to a smooth start—the better new members understand how the investment committee functions and their role on it, the sooner they can start to make valuable contributions to the committee and the investment decisions it makes.

Making a successful transition

Based on our experience, we’ve outlined five key areas new investment committee members should focus on to help them successfully make the transition to their new role:

1. Recognizing their fiduciary responsibilities.
2. Deepening their understanding of the organization and its goals.
3. Getting to know the personalities and backgrounds of their fellow committee members.
4. Understanding the context for the committee’s decisions.
5. Getting to know the portfolio.

Note: This article is adapted from a 2012 Vanguard publication by the same author, entitled Six Investment Committee Essentials: A Guide for New Members; available at vanguard.com/members.
1. Fiduciary responsibilities

Perhaps the most important item for new members is recognizing the full scope of what it means to be a fiduciary. The role requires that an investment committee member always act prudently and in the best interests of the organization. This means applying personal experience, judgment, and knowledge in concert with understanding the regulatory framework and mission of the organization.

Vanguard has identified five 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 a diverse group of 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 should be reasonable, paid out by the portfolio, and aligned with the organization’s spending policy.

- **Administrative oversight.** Investment committee members must oversee the creation of documents such as the investment committee charter and investment policy statement, ensure that the investment committee is operating according to those documents, and satisfy all legal and regulatory rules issued by relevant agencies.

In addition, most state laws require *nonprofit* fiduciaries to fulfill the following 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.

2. Understanding the organization and its goals

Learning about the organization and its goals or mission is also essential to becoming an effective committee member. After all, the portfolio of assets overseen by the committee is a means to an end, not an end in itself. By deepening their understanding of what the organization stands for, new committee members will have a framework to inform the investment decisions they and their colleagues make. More insights on the alignment of committee members with an organization’s goals can be found in the box on page 3, “What the best investment committees have in common.”

3. Getting to know fellow committee members

For perspective on the committee’s various personalities, it can be extremely useful for new committee members to speak informally with the committee chair or a seasoned member before attending the first meeting. This provides an opportunity to ask how a typical meeting proceeds. 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?

Reviewing the résumés of the other committee members can provide new members insight into their colleagues’ backgrounds, levels of expertise, and achievements. Groundwork like this gives new members an idea of what to expect and the opportunity to reflect on how to leverage their experience and abilities to benefit the committee.
What the best investment committees have in common

A previously conducted survey of Vanguard professionals who have served on or observed investment committees found that the best investment committees share the following characteristics:

- An explicit understanding of a portfolio’s purpose and objective, and a clear definition of success in determining whether the portfolio fulfills that purpose and meets that objective.
- A charter outlining the roles and responsibilities of committee members, support staff, and—if applicable—consultants.
- A clear investment strategy that includes a reasonable set of assumptions about the organization’s risk tolerance and expected returns.
- A straightforward process for hiring managers to implement that investment strategy and for identifying the circumstances under which such relationships can be terminated.
- Common sense and discipline.

In addition, we identified the following qualitative traits, which can be hard to capture but are just as important:

- A recognition that investment theory is often at odds with behavioral tendencies, necessitating that committee members adopt a disciplined investment system and maintain their focus on the investment goals.
- A willingness by committee members to challenge and debate the issues at hand, using facts and data instead of letting only strong opinions prevail.
- A desire by committee members to establish constructive relationships and discussions, both among themselves and the people they work with, in order to be the best committee possible.

Additional research conducted by Vanguard also indicates that new committee members who were “onboarded” with some sort of educational program in place were more satisfied with their role, contributed more effectively earlier on, and were ultimately more successful in their role than those who did not have that advantage.

4. Context is key

Investment committees don’t operate in a vacuum. Although the decisions of every investment committee affect the organization’s ability to achieve its overall goals, exactly how that process works varies from one committee to another. Helping new members get a feel for the particular challenges and issues the committee regularly faces can give them the critical context needed to carry out their role.

For example, in some organizations, the investment committee is free to focus solely on the management and oversight of the portfolio. In smaller nonprofit organizations, committee members may wear multiple hats and may be involved in fundraising, spending, and operational decisions.
• **Reports and spending policies.** An organization’s annual reports and spending policies provide useful snapshots of its finances, programs, and commitments. Balance sheets, quarter-end statements, and income statements can similarly offer insights.

• **Consultant information.** If an organization works with a consultant, it’s helpful to understand the consultant’s role: Is it research only or does the consultant act as a sounding board when the committee is making decisions?

5. Getting to know the underlying portfolio

As mentioned, the broad outlines of how the portfolio is managed should be clear from the portfolio’s IPS. 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?

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.

Reviewing this document should inform new members of:

• The portfolio’s purpose and the philosophy behind it.
• The committee’s view on the risk of losses versus the opportunity for gains.
• Who is responsible for investing and managing the assets.
• The process the committee follows in selecting, monitoring, and terminating managers.
• The types 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.

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?

An opportunity to speak directly with the portfolio’s investment managers can also be productive for new committee members.

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**A note to investment committee chairs:**

The search for a new committee member can be lengthy and intensive for you and your committee. But don’t stop your efforts once the right candidate has been found. Keep the momentum going by putting an education process in place to ease the transition for new members and continue to enhance the knowledge base of the overall committee.
Continue the learning

This article has emphasized the needs of new investment committee members as they move into their fiduciary role—but the learning process shouldn’t stop with “onboarding.” Even seasoned investment committee members can benefit from broadening or updating their fiduciary skills and knowledge.

Scheduling a presentation on a specific topic (such as regulatory requirements or updates, tax laws, and fiduciary best practices) or a discussion with an expert on a particular asset class as part of a regular committee meeting can help build up a base of shared knowledge among all committee members over time. Industry conferences and websites can play a role, too, in keeping everyone up to date on the latest developments affecting their role of overseeing the organization’s portfolio.

Because well-informed investment committee members are critical to the financial strength and ultimate success of an organization’s mission, there’s good reason to make continuing education a part of the committee’s regular routine.

The accompanying box, “Fiduciary fundamentals: A suggested education program,” outlines key topics for consideration.

Fiduciary fundamentals:
A suggested education program

As they face a complex and evolving investment landscape, new committee members may need help getting up to speed, while seasoned members may appreciate a refresher on the key facets of their role as a fiduciary. We believe an investment committee educational program should include an exploration of the following:

• Relevant fiduciary guidelines and regulatory updates.
• Common behavioral group dynamics and techniques for mitigating suboptimal tendencies.
• Important committee-related documents, such as charters, investment policy statements, and conflict-of-interest policies.
• Rationale for selecting investments in the portfolio and subject matter expert reviews of relevant investment strategies.
• Expert insights on relevant markets and the overall economy.

For more information about Vanguard’s educational offerings for institutions, please contact your Vanguard representative.
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