VIEWPOINT

RUSSELL INVESTMENTS RESEARCH

How do your investment committee meetings measure up?

Investment committees play a key role in the deployment of the $18 trillion[1] or so of institutional assets in the U.S. More often than not, it is an investment committee that establishes strategy, oversees critical asset allocation decisions and selects the people who take day-to-day responsibility for running the money.

Like the operation of any multimillion- or multibillion-dollar enterprise, the successful operation of an institution's investment committee is a fluid and complex business. There are a lot of things to consider. Getting it right is not always easy.

In this note, I will focus specifically on the operation of investment committee meetings. Among the most common complaints about investment committee meetings are: that too much is done to no clear purpose; too much time is devoted to minutiae, and too little to the strategic decisions that ultimately lead to success or failure; and committees can be petri dishes for behavioral errors, such as groupthink or overconfidence.

An investment committee is an oversight body, so its brief needs to be an open-ended one. There's no such thing as a perfect investment committee agenda: the best way to spend a committee's time will change as circumstances and priorities change. And the idea that there *is* a perfect agenda could even be harmful if it leads to a fixed routine and a treadmill of the same old discussions, with the same old reports being looked at by rote with no real purpose. Beware, too, of the danger of perpetuating an omission or of pushing important discussions beyond the possibility of consideration.

While there is no perfect agenda, there are principles of what makes for a good one. Here – drawing on the experience of several colleagues who have been kind enough to share what they've learned in working with hundreds of different investment committees over the course of decades – are some of those principles.

I have expressed them as a series of questions that committee members can ask themselves, a means of judging just how well you measure up against the best (and not-so-best) other committees out there.

Three questions about focus

1. Is it clear what success looks like?

A clear understanding of the end goal of the program is the foundation of an effective investment committee. The clearer the vision of the desired outcome, the more likely the committee is to focus its efforts in the right places.

2. How much time does the committee spend doing things that could be better done by others?

The committee's job is to make sure things get done, not necessarily to actually do them. There are many tasks that could be done better by others and thus should be delegated. This doesn't remove the task from the committee's purview, of course, but it changes the committee's role from actor to overseer – and the latter role is the one the typical committee is best-placed to play. What you do, do well; what you can't do well, or don't have time to do, delegate.

3. Are actions driven by a desire to create the best outcomes – or to put checkmarks in legal boxes?

Because their role is a serious legal obligation, fiduciaries naturally seek to avoid making decisions that could lead to legal liability. This has become especially prevalent in the Defined Contribution world in recent years, but is true of all sorts of investment programs. However, fiduciary conservatism and effective investment can be very different things. The avoidance of legal liability is a necessary, but not of itself sufficient, condition for success. Symptoms of a box-checking mentality can include committee membership chosen to achieve representation rather than expertise, and lack of shared ownership of decisions.

Getting the right amount of legal input can be a difficult balance to strike: not too little, but not too much. And the type of legal input matters, too. It's not always best to use internal counsel; specialist counsel can sometimes be worthwhile, especially on major decisions.

Four questions about the operation of the committee

4. How much pre-work gets done?

This is perhaps the most consistent theme that came through from my colleagues, and the clearest indicator of committee effectiveness. Big issues need to be socialized with committee members before the actual meeting; it's unrealistic to attempt to frame an issue, educate members, discuss and reach a decision on a major topic all in one short meeting. Members need to come into the meeting already aware of the key questions. That way, discussion gets to the point more quickly. No surprises.

5. Is it always clear what the purpose of an agenda item is?

A particular item may be on the agenda either for information or for a decision. The way it should be handled will differ in each of those two cases. An information item may include education and discussion, but the item serves as an end in itself. If a decision is needed, then the information that is provided and the discussion that ensues should be focused on that decision. In each case, the right information needs to be provided: sufficient detail, but clear enough and well structured, so that the pre-work actually gets done.

6. Do your meetings ever get sidetracked or hijacked?

Conversations can take all sorts of different directions. Each committee tends to have its own character: corporate pension plan committees are often made up of individuals who are accustomed to the committee environment; for nonprofit, public plan and multiemployer plan committees this is not necessarily so. But any committee can be hijacked by individuals with pet peeves or personal agendas. Any committee can find itself steered off track by random comments that take the group into time-consuming but fruitless discussions.

7. How do you rate your group dynamics?

The group should feel that it has a shared purpose; the strategy should be clear to all. Individual decisions should add up to a coherent whole. Good committees are decisive when they need to be, avoiding the temptation to disguise a reluctance to decide as a request for further analysis.

Individuals should feel free to question a consensus view; diverse perspectives should be valued. Everyone can help to foster the mutual respect in which true cooperation thrives. The committee chair has a particular role to play in encouraging good dynamics: determining whether deferral of a decision is helpful, or simply delaying; keeping all committee members engaged; maintaining focus; and ensuring a sense of shared ownership of decisions. Sometimes (see question 9, below), the chair needs to impose discipline.

Three questions about the evaluation of effectiveness

8. How useful are the meeting minutes?

The documentation that results from a meeting is an indicator of how purposeful the meeting was. Good minutes are a symptom, rather than a cause, of an effective meeting agenda. But if you're looking for clues into how well you're doing, they can be a good place to start. And if past meeting notes are hard to find, that tells a story in itself.

9. If something's not working, does it get fixed?

Without the right people, a committee cannot do a good job. And here the role of the chair is especially critical. All sorts of situations can prevent a committee from working as it should – everything from committee members who loathe each other, to members who see meetings as a chance to catch up on sleep, to individuals who – with the best will in the world – just aren't contributing anything useful. Some committees find a way to fix the thing that isn't working, whether it's the wrong people or some other challenge; others allow the problem to remain unresolved.

10. Do you ever step back and take stock?

Regular meetings can quickly fall into a routine. The important can be crowded out by the urgent. Sometimes, a fresh view is needed: it's worthwhile to occasionally carve out time for educational topics or to ask "What are we missing?" Despite all of the other demands on a committee's attention, there comes a time – every so often – when it helps to step back and review the big picture.

These 10 questions capture the main principles that underpin an effective investment committee. As I gathered thoughts from my colleagues, it was clear that none of them claimed to have encountered either a perfect committee or one that was beyond hope. But it is also clear that an effective committee environment makes a real difference to the quality of an investment program. It's my hope that the questions provided above spark at least one idea that can help you improve the effectiveness of your own meetings.

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[1] Private and pension public funds, plus nonprofit organizations. As of September 2013. Source: Federal Reserve.