Investment committee members play a vital role in the success of an organisation. This paper highlights best practices to improve the quality and efficiency of investment committee decision-making.

The insights are based on independent and third-party research, a survey of over 600 investment committee members, and observation of and the authors’ participation in hundreds of investment committee meetings across the globe.

The purpose of this paper is to provide investment committee members with practical guidance on meeting their fiduciary responsibility through proper debate and documentation, constructing their committee thoughtfully with well-vetted leaders and members with diverse skills and backgrounds, conducting well-structured and productive meetings, and anticipating and resisting counterproductive behaviours.

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All types of institutions — nonprofit organisations, corporations, foundations, universities, etc. — have a pool of assets that must be managed for the institution’s or participants’ benefit. These assets can be part of an employer-sponsored retirement plan (either a defined benefit or defined contribution plan), or part of an endowment or operating account that provides ongoing funding to the organisation.

Rather than having a single individual oversee this pool of assets, most, if not all, institutions have an investment committee that is charged with this responsibility. Within a company plan, the makeup of this committee is often based on a company title or role, whereas endowments often include volunteers and peers of members. Is this the best methodology for achieving success? Serving on an investment committee can be a challenging, daunting task, and for the new committee member it can certainly seem overwhelming.

This paper provides insight into committee construction and behaviour as well as individual committee members’ duties and responsibilities. We consider current academic research, past Vanguard studies, and a recent investment committee survey of over 600 committee members to further our understanding of the challenges investment committees face.

Importantly, the members who serve on the committee act as fiduciaries to the organisation and/or the employer-sponsored plan. The committee is responsible for all the financial decisions made regarding the assets it oversees. These decisions may be challenged because of regulations or perhaps because a decision has unfortunate consequences.

How does a committee defend its position? Is there a methodology that can reduce the risk of such a challenge? The fiduciary section of this paper helps illuminate what steps a committee can take to reduce the risk of legal challenge to its decisions, or help it defend its decisions.

How is a leader selected? How are members selected relative to the present membership? The investment committee construction section discusses attributes to look for when selecting a group of individuals who can, together, make decisions more productively and prudently. Then there is the meeting. Readers of this paper have likely participated in their fair share of meetings that accomplished less than planned. As investment meetings tend to be infrequent, are there ways to ensure the important decisions are completed in a thoughtful and timely way?

Finally, readers are aware of the suboptimal human dynamics occurring in groups or committee settings — how they can commandeer the decision process, often leading to less-than-ideal results. Are there ways to control these common human habits?

Laid out are what we believe to be the “best practices” for committees — from fiduciary requirements to the handling of behavioural issues often seen in a committee decision-making setting. Included are Vanguard’s views on the four pillars of investing success, and input from colleagues with deep personal experience with investment committees. Embracing these best practices and learning from first-hand accounts should lead to better investment committee results on a number of metrics.

This paper has six components:

- The fiduciary requirement.
- Building an effective committee.
- Procedure: conducting an effective meeting.
- The human side: committee behavioural hurdles.
- Investing fundamentals — it is an investment committee.
- Viewpoint: perspectives from those who have been there.

The 2015 Investment & Benefits Committees Leadership Survey was conducted by Cogent Research. The web survey was sent to Vanguard’s institutional investors. A total of 609 responses were received and 992 data points resulted, split among defined benefit, defined contribution, and endowment/foundation/nonprofit. (There were additional data points because some respondents had multiple responsibilities.)

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The fiduciary requirement

Corporate plans
Since its enactment, the Employee Retirement Income Security Act of 1974, as amended (ERISA), has imposed one of the highest requirements of care to be found under US law — that of a “fiduciary”. Plan fiduciaries are held to an exceptional level of duty and care, including the assumption of personal liability for fiduciary decision-making. In today’s evolving legal, regulatory, and litigation environments, it is more important than ever that employee benefit plan fiduciaries understand their roles and responsibilities.

Fundamentals of fiduciary responsibilities
In addition to specifying a person (or title) in the plan document (the “named fiduciary”), a fiduciary is defined by ERISA as someone who: 1) exercises discretion over the management of the plan or any authority or control over plan assets; 2) renders investment advice for a fee — or other compensation — directly or indirectly; or 3) has discretion over plan administrative issues. Anyone who meets even one of these functional definitions will be a plan fiduciary, regardless of the person’s role or title. Common examples of plan fiduciaries include plan committee members, the plan’s investment manager, and the trustee.

Fiduciary duties
Underlying the conduct of fiduciaries in private pension plans are the core fiduciary duties drawn from ERISA:

Exclusive benefit for participants. Fiduciaries must act for the exclusive purpose of providing benefits to participants and beneficiaries and defraying reasonable expenses of administering the plan.

Defining prudence. Fiduciaries have a duty to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would act, including ensuring investments remain prudent investments. In other words, fiduciaries must meet a “prudent expert” standard: They must act in the same manner as an experienced or knowledgeable expert.

Portfolio diversification required. Fiduciaries have a duty to ensure that plan assets are well-diversified in an effort to “avoid large losses”. Such diversification is required unless it is clearly prudent not to do so under the circumstances. This standard is generally more applicable to traditional pension plans than it is to profit-sharing and 401(k) plans that permit plan participants to choose their own investments.

Adhering to plan documents. Fiduciaries must follow the terms of the plan document and other documents governing the plan unless inconsistent with ERISA. The plan document’s provisions must be consistently applied.

Courts also shape the definition of a good fiduciary. In cases against plan fiduciaries related to plan expenses or company stock, courts do not judge fiduciaries against a standard of perfection but rather a standard of prudence in decision-making. Recent court decisions have continued to reflect the idea that procedural due diligence is generally more important than the results attributable to fiduciary decisions.

In Vanguard’s view, it is critical for fiduciaries to apply personal experience, judgement, and knowledge to maximise the welfare of the plan’s participants. Above all, fiduciaries must bring the highest levels of ethical conduct and fiduciary care to the operation and ongoing management of a retirement programme.

Fiduciary best practices
Whether an employer offers a defined benefit (DB) or a defined contribution (DC) retirement programme, there are five areas of principal best practices at the heart of good fiduciary conduct.

Organisation of committees. The employer’s senior management team appoints individuals to oversee the operation of the plan or plans and to be the employer’s designated ERISA fiduciaries. While members of the committee are not required to be experts on retirement plans or investments, they should have some relevant experience and should be willing to work to satisfy ERISA’s strict standards.

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Investment selection and monitoring. The committee should ensure that members understand the investment portfolio’s purpose and objective, with a clear definition of success as per the investment policy statement (IPS). The chosen investment strategy should have defined expectations for both risk and return, including selecting a default fund in a participant-directed DC plan. The process for hiring, evaluating, and terminating investment managers should be clearly defined and adhered to.

Plan cost reasonableness and allocation. Plan fiduciaries must ensure that costs are appropriately allocated between the employer and the plan, and that all costs incurred by the plan and paid out of plan assets are reasonable. Reasonableness includes an assessment of the quality of the services provided, as well as the cost. Plan fiduciaries should also consider different fee allocation methods that may be available. Plan sponsors should build a record to document the information and factors used to determine the reasonableness of plan fees.

Administrative oversight requirements. Broadly speaking, it is the duty of plan fiduciaries to maintain plan and employee records, adjudicate benefits claims and appeals of claim denials from participants, and file all reports, notices, and statements required by law. The cornerstone of effective plan administration is the plan document, which stipulates how fiduciaries will handle administrative features of the plan. There are four best practices: Conform with plan documents and procedures; conduct periodic compliance reviews; comply with nondiscrimination testing (not favouring highly compensated employees); and ensure timely employee contributions, notifications, and appeals.

Procedural prudence. ERISA has been called a “process-driven” statute. In evaluating whether a fiduciary has acted prudently, courts generally focus on the process the fiduciaries used in making a decision, rather than on the results. If a fiduciary can demonstrate that it engaged in procedural due diligence, a court will generally find that the fiduciary complied with ERISA’s prudence requirements. As a result, documenting why plan fiduciaries came to the conclusions they did may be the deciding factor in a court’s determination that the plan’s fiduciaries acted in a prudent manner.

Nonprofit investment committees
Nonprofit investment committees face numerous unique challenges. For example, they must invest the organisation’s assets in a way that allows the organisation to meet its stated operational goals, but at the same time they must invest those assets in a way that aligns with the organisation’s underlying mission and philosophy. Also, most nonprofit investment committees are composed of some non-financial professionals, and often the investment process, by default, is left in the hands of those with the most extensive financial background. For a nonprofit investment committee to fire on all cylinders, the entire committee must participate in the process and the committee’s IPS must align with the organisation’s investment beliefs.

Fundamentals of fiduciary responsibilities
The board of a nonprofit organisation ensures that the assets of the organisation, including financial assets, property, etc., are well managed and that the fiscal health of the organisation is sound. Additionally, the board oversees the human resources of the organisation, both staff and volunteers, ensuring that all activities of the organisation are carried out in a legal and ethical manner.

Fiduciary duties
For charitable organisations, the fiduciary duty is usually defined at the board of directors’ level. While only a few members of the investment committee may be board members, all members of the committee should comply with the following three duties (National Council of Nonprofits, 2017):

Duty of care. Board members should participate fully in their role by adequately preparing for and attending meetings, asking questions to gain enough information to make an informed decision based on independent judgement, and reviewing the performance of the charity’s leadership, e.g. executive director, chief executive officer, senior managers.

Duty of loyalty. The board, and all of its members, have a duty to act in the best interest of the organisation and its beneficiaries. Conflicts of interest must be disclosed in advance, when possible, and as they come up, and every effort should be made to avoid a conflict or even the appearance of a conflict. No board member should benefit personally at the expense of the organisation.
Duty of obedience. The board, and all its members, must adhere to all applicable state and federal laws relating to nonprofits and comply with all reporting and filing requirements.

Fiduciary best practices
An organisation’s investment committee usually includes several board members as well as non-board members who possess the expertise needed to round out the committee’s knowledge base. While the board is ultimately responsible for fulfilling the organisation’s fiduciary duties, the investment committee makes recommendations to the board. The following are several best practices that investment committee members can use on a day-to-day basis to help their committee function as well as possible.

Consider the impact the organisation’s mission has on investing the endowment’s assets. For example, if a college relies heavily on an endowment for its annual operating budget, the committee must consider how the portfolio allocation and spending policy formula may influence how the college administration makes strategic business decisions.

By considering how their endowment assets are managed relative to their organisation’s mission, committees improve the odds of organisational success. Often, the members who are most vocal about investment decisions are from the corporate or financial world and are more concerned about portfolio risk and return than about the group’s mission. While not all members of the organisation’s endowment may share all the values and principles the organisation holds dear, they should be willing to make decisions that reflect those values and principles.

Determine a reasonable return target and level of risk, and an appropriate spending level. Committees are required to walk a fine line: invest aggressively enough that their assets can support the organisation’s operation and fulfillment of its mission, yet invest conservatively enough to avoid large drawdowns or extreme fluctuations in asset value that might threaten the organisation’s reputation or existence. Portfolio-return goals should be clearly stated, either in absolute or relative terms, and the accompanying level of expected risk should be clarified as well. At the same time, the spending levels (apart from legally mandated spending) should be assessed in the context of expected cash inflows and portfolio risk.

Document and re-evaluate the IPS periodically. The committee’s IPS should be regularly evaluated and updated as needed. Events that may drive updating could involve a change in the mission (e.g. endowment must support a much larger percentage of the operating budget), inclusion of new investing options (e.g. international bonds or an absolute-return strategy), or investment time horizon. The IPS should reflect reasonable expected capital market returns and expected levels of risk with a long-term perspective. In times of market stress and/or unexpected financial demands, clearly documented risk and return objectives will help guide the committee’s actions regarding what changes, if any, to make going forward.

Have a conflict-of-interest policy. A key document that an investment committee should draft is one that can act as a safeguard against potential conflicts of interest among committee members and the committee’s vendors. An example of a potential conflict could involve a major donor who has connections to an investment firm that has an expanding role with the management of the endowment assets. Further, the IRS views this document as strongly encouraged to the committee’s proper functioning: Form 990 explicitly asks if the committee has a conflict-of-interest policy on file. The conflict-of-interest policy can provide guideline actions the committee can take to ensure that conflicts are disclosed and that proper steps are taken to limit conflicts of interests. Additionally, time during committee meetings should be devoted to reviewing the policy so that all committee members are well aware of what is expected of them regarding disclosures, actions, etc.

Keep fiduciary responsibility in mind when hiring an outsourced chief investment officer (OCIO). Plan sponsors, endowments, and other fiduciary entities often consider hiring an OCIO to manage their asset pool — perhaps with the intention of “offloading” the fiduciary responsibility. While the OCIO often is a fiduciary in such a setup, it is, at best, a shared responsibility because the current fiduciaries can never fully absolve themselves of their responsibility to the portfolio assets.
Investment committee construction — building in success

Building an investment committee for corporate institutions often starts with a corporate edict: The treasurer or chief financial officer leads a committee that includes the chief counsel — a DC plan usually has HR representatives as well — and then adds a few business leaders who are willing to join or were “volunteered” to round out the team. Our survey found that 70% of committee members were selected based on their role within the organisation. For nonprofits, current members may seek out knowledgeable friends or those they know in the investment business. Add a few key donors and maybe some key business community “names” to embellish the published list.

These methods may lead to a functional committee, but we think a more structured methodology increases the chances of having an effective one.

Key drivers to building a successful investment committee

Understanding member responsibility. Becoming an investment committee member should not be taken lightly. While it may be a role or honour some seek, the responsibilities and requirements can be significant.

Committee members should make every attempt to attend all meetings. This may include travel to different venues or investment manager on-site visits. In order to fully participate, a member must hear the information first-hand and have the opportunity to query and interact with outside sources (consultants or investment managers, for example) and other committee members.

A committee member must be an active participant in meetings (a later section will review group dynamics). Simply being there is not enough — members are tapped for the expertise they bring, and bring it they must. In addition, members should be open to new ideas, be prepared for meetings, and think long term, given the long horizon of most asset pools.

A member must understand that his or her personal views and investing style may not be appropriate for this investing entity. For instance, a pension or an endowment typically has a much longer investing horizon than an individual. This can make seeking investment risk more acceptable in order to achieve the entity’s required returns. Yet, our survey (see Appendix and Figure A-1) found that on average, members tend to be less aggressive with the entity’s money than with their own. It is important that members shelve their personal preferences and focus on actions in the best interests of the portfolio.

Leader (chair) selection. There are so many books on the subject of effective leadership that it seems pointless to discuss it here. Except that it is so important.

What makes a good committee leader? Many studies point to strong communication skills and the ability to draw out the expertise of committee members (Gordon, 2011). The leader has the ability to discern the issues, prioritise, and size the agenda to answer them. He/she has the strength to drive the decision process forward to conclusion while building consensus. There are many more characteristics of good committee leadership, and the selection committee should ensure its interview process properly reviews each candidate’s leadership history to discover the best person on the candidate list.¹

From our survey, we know that the committee leader tends to be chosen by the upper-management echelons of the entity. The most frequent selector (64%) is senior management or the board. It is hoped that those with the power to choose have a thoughtful selection process that examines some of the criteria listed above. If not, consider it an opportunity to revisit when the leader’s term is completed (see term limits below).

Related to committee structure is the support staff. How often have you heard that the office runs fine when the boss is away, but struggles when the support team is absent? Here, support staff ensure the success of the committee function, through acquisition and distribution of data and meeting materials, blocking calendars, addressing technology challenges — failure in any of these areas can quickly derail an effective meeting. Ensure that the support for the committee is there.

1 For more on the attributes of a successful chairperson, see Wood (2006).
What committee size is optimal? Research shows that committees’ size can have an impact on their efficacy (Forsyth, 2006). Larger committees have a larger collective memory and broader knowledge than smaller ones. At the same time, more members can mean the decision process bogs down, analysis paralysis sets in, or social loafing demotivates members, leading to suboptimal results (Shaw, 1981). Committees of six to nine members are large enough for diversity yet small enough for all to provide meaningful contributions and still achieve acceptable decision speed. Of course, each situation can alter the optimal number. Smaller organisations with fewer available members and simpler portfolios can err on the low end. Organisations with complex portfolios with large impacts on the underlying entity and a ready member population to choose from may prefer to have more. Our survey found that most do adhere to the size suggested above: 63% of investment committees have five to eight members.

If complexities or issues arise, rather than expanding the committee, consider assigning a subcommittee to the subject, such as alternative asset class or fee comparison. Alternatively, a consultant may offer the required expertise, either through a standalone project or an ongoing input to committee.2

Building a skilled committee. When a committee is built, it is not always with an eye toward what each individual’s expertise contributes to the whole. Given that the committee membership is limited, what each member brings should be considered holistically — his or her expertise relative to the committee’s need. Figure 1 shows an example of a skills matrix of a hospital endowment. Various individual skills are noted, then aggregated to reveal an abundance of skill in the health care and accounting categories, whereas alternatives, risk management, and “relationship” areas remain unaddressed. Such a template, adjusted to cover the key areas important to your organisation, can assist with adjusting the committee membership as turnover opportunities arise.

<table>
<thead>
<tr>
<th>Member name/position</th>
<th>Joining year</th>
<th>Career fields/degrees/designations</th>
<th>Quantitative aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committee member #1</td>
<td>2009</td>
<td>Health care/MD</td>
<td></td>
</tr>
<tr>
<td>Committee member #2</td>
<td>2013</td>
<td>Lawyer/Esq.</td>
<td>✔</td>
</tr>
<tr>
<td>Committee member  #3</td>
<td>2016</td>
<td>Accountant/CPA</td>
<td>✔</td>
</tr>
<tr>
<td>Committee member #4</td>
<td>2014</td>
<td>Health care/MD</td>
<td></td>
</tr>
<tr>
<td>Committee member #5</td>
<td>2014</td>
<td>Investments/CFA</td>
<td>✔</td>
</tr>
<tr>
<td>Committee member #6</td>
<td>2008</td>
<td>Health care/MD</td>
<td></td>
</tr>
<tr>
<td>Committee member #7</td>
<td>2012</td>
<td>Investments/CFP</td>
<td>✔</td>
</tr>
<tr>
<td>Committee member #8</td>
<td>2010</td>
<td>General business</td>
<td>✔</td>
</tr>
</tbody>
</table>

Figure 1. Example of a health care endowment committee member skills matrix

Source: Vanguard, based on hypothetical example.

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2 For more information on whether to hire a consultant or an OCIO firm, see Wallick and Wimmer (2014) and Bosse and Klein (2015).

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Appropriate length of term. How long members should serve on a committee is often a touchy subject. Honorary members, especially on nonprofit boards, can prove difficult to dislodge. Yet studies have shown that committees can stagnate if new blood is not regularly injected (Moyers, 2011). On the other hand, it is important to maintain a “corporate memory” of the logic of previous committee decisions and preferences of the entity. Naturally, there is a trade-off between new blood and corporate memory. We suggest that terms of five to seven years are reasonable, with possible re-election for a select few who are key to the team, (although a never-ending re-election cycle is a risk). One suggestion is to require a sabbatical for those seeking re-election to avoid control issues. Staggered terms will also help maintain the corporate memory.

From the survey, it appears that turnover is limited as almost no one has less than one year of tenure on the committee (see Appendix and Figure A-2), while 20% have more than ten years of membership. With staggered terms, a committee of six ought to have at least one or two members with less than one year of experience.

Improved decision-making through diversity. Vanguard believes, and studies have shown, that a diverse committee achieves better decisions than less diverse ones (Forsyth, 2006). The definition of diversity can be multi-dimensional, as seen in Figure 2. When we asked in the survey about diversity, respondents indicated that their committees were well diversified in terms of professional and committee experience, but less so in the areas of gender, race/ethnicity and age. These findings echo an earlier Vanguard study (Gordon, 2014). As we will see in the behavioural segment of this paper, diversity also can limit the likelihood of group dynamic issues, such as groupthink, confirmation bias, and group polarisation. In conjunction with term limits, here is an opportunity to improve a committee’s effectiveness through added diversity of its membership.

Final thoughts. The committee construction process is ongoing. For instance, new issues will arise that may call for new skill sets, so new people may be asked to join. As members come and go, the chemistry of the committee will change and adjustments to membership and leadership may be required. The process laid out here can allow regular change to continually improve the committee decision-making capability.

Figure 2. Committee diversity is not complete

Question: Please rate your committee’s level of diversity

<table>
<thead>
<tr>
<th>Committee member characteristic</th>
<th>Percentage of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional experience</td>
<td>44%</td>
</tr>
<tr>
<td>Committee experience</td>
<td>39%</td>
</tr>
<tr>
<td>Education</td>
<td>28%</td>
</tr>
<tr>
<td>Gender</td>
<td>27%</td>
</tr>
<tr>
<td>Age</td>
<td>27%</td>
</tr>
<tr>
<td>Race/ethnicity</td>
<td>7%</td>
</tr>
</tbody>
</table>

Procedural perfection

As you read through this paper, you will see how important procedures and documentation are. Much of the “action” for an investment committee takes place during its meetings, so running them to ensure proper decision-making is completed efficiently is fundamental to the success of the committee. Following some well-tested tenets will help.

The committee charter states the mission and objectives for the assets and the committee that oversees its investment; it also documents the committee selection process along with the roles and responsibilities. Because that mission can change, it merits regular review. For example: The long investment horizon of a pension plan may be questioned as plans target pension termination rather than continuing indefinitely. That change can have a dramatic impact on policy and investment strategy. The charter should include contingency plans to allow special meetings to address urgent business rather than waiting for the next regularly scheduled meeting.

New committee members should be welcomed with a packet that reviews the organisation’s history, mission statement, policy statements, financials, meeting minutes, committee contact information, etc. The packet should clarify what the member’s expected role is and the chairperson should be ready to discuss. The more new members understand their role and the committee mission, the sooner they will contribute.

Set the meeting calendar at the start of the year. Getting the calendar out early helps committee members avoid conflicts — the most common schedule is quarterly and the meeting dates are often set just prior to a company board meeting so results can be passed along to the board. The frequency of meetings may depend on a preference for fewer/longer meetings, the complexity of the asset pool, or the mission dynamics the committee faces.

Before the meeting, the committee chairperson sets the agenda, with assistance from the CIO, OCIO, and/or consultant. The agenda should clearly state the objective for each agenda item. Committee members can also propose topics and pose questions for the agenda. The agenda should be prioritised ruthlessly by the chairperson: What matters most comes first and gets the most time (e.g. determining the strategic asset allocation, evaluating the spending policy, analysing whether to close or freeze a pension plan). Meeting materials should be distributed in advance with ample time for review and in sufficient detail, so that meeting time is spent on discussion and decisions (Ellis, 2010). The chair should avoid being overly ambitious in terms of agenda. Allocate enough time for proper vetting of the topics — if more topics merit discussion, call another meeting.

During the meeting, the chairperson should seek to stay on time and make sure everyone has a chance to be heard. No one likes meetings that run over, as committee members often have other commitments. However, it’s not certain how long a topic will take to resolve, which is why it is important to leave time for questions and answers, productive discussion and debate, and related issues. It is the balance between completing the required tasks and doing so effectively that determines meeting success. When it comes time to vote, consider asking committee members to cast their votes simultaneously instead of going around the room one at a time. Another requirement: Document the proceedings (see Fiduciary segment). Finally, the committee should agree on an effective path forward for issues that are left undecided (e.g. a subcommittee, further information gathering).

After the meeting, the meeting minutes should be compiled by a nonparticipant of the proceedings and sent out for comment. While this step often happens just prior to the next meeting, it is better practice to release a draft of the minutes for review early enough so that meeting thoughts and ideas are still fresh in members’ minds. Early release also ensures that any meeting minutes discrepancies can be cleared up prior to the next meeting. Minutes should err on the side of more detail rather than less (consult your legal counsel), and include materials pertaining to the discussion. Minutes should cover both process and the rationale that led to key decisions, and who is responsible for action items as well as expected completion. A best practice is for the chair to ensure that absent members are apprised of the previous meeting’s proceedings and their viewpoints noted on the decisions made. This ensures that valuable later meetings are not consumed by updating previously absent committee members.
Continuous education for members is encouraged so the committee can include topics that are pertinent to members’ decision-making process and consider including areas not immediately related to broaden committee perspective. Topics such as capital market forecasts, regulatory changes, and different investment strategy or asset class deep dives can stimulate new thinking and innovation. Content is usually widely available from academics, outside managers (excluding sales-oriented material), consultants, and peers. In addition, reminding members of best practices for committees should be a regular event.

Conduct an annual assessment of service providers, staff, committee members, portfolio, committee, and the investment policy statement. Simply asking “how did we do” can open up a dialogue on improvement. Topics can be far ranging, including what the committee or providers are doing well, what they could do better, what the committee shouldn’t do (as mission creep is pernicious), and how well time is spent. In some cases, it may be beneficial to conduct a blind assessment if there is concern that honest opinions will not be expressed otherwise. The last meeting of the year is often a good time, as a new year begs for considered change.

Committee behaviour — the derailleurs

The dynamics of a committee are driven by the leader’s approach as well as committee interaction style. This section looks at survey results on the preferred style of committee decision-making. Then we review some typical committee pitfalls on decision-making, and possible ways to remedy them.

Our 2015 survey of 609 committee members asked them what they viewed as the best choice for committee structure: autocratic (strong leadership), laissez-faire (soft leadership), or democratic (collaborative leadership). No surprise: The democratic model was most widely lauded, with 88% preferring this model, about equal to results from the survey we conducted in 2010. The “actual” model applied in their committee didn’t deviate too far, either, with 82% believing they adhered to that definition (80% in 2010). Laissez-faire came in second at 13%, and autocratic was a distant third at just 5%.

We then asked survey respondents to answer a series of questions designed to discover the actual decision-making process in order to gauge if, in fact, the committee is executing in a democratic way. We found that the two most frequent responses aligned with a democratic process. It was closely followed, however, by an autocratic tendency, and then two more that are typical of the laissez-faire model. Overall, the democratic choices tended to rank higher than the laissez-faire ones, which in turn were higher than the autocratic ones. It does appear, then, that decision-making reality aligns with preference. Committee member concerns about the decision-making process could be aired either through the annual assessment (see earlier assessment segment) or perhaps an anonymous peer survey.

A typical meeting layout might look like this:

- Minutes approval — distributed ahead of time — with time for questions prior to meeting.
- Prioritised agenda — what is important gets the first slots and time commitment (e.g. recommendations).
- Performance review — distributed ahead of time — should receive limited attention.
- Educational component/rotating topics.
- Open forum for members.
- Path-forward agreement on open issues.
- Adjourn.
The derailers

Suboptimal committee behaviours

Group decision-making has been closely examined by academia. Several tendencies can lead to less-than-optimal results. It is beyond the scope of this paper to cover all the difficulties that group decision-makers face but below are some of the most common.

Groupthink: A group’s desire for conformity or conflict minimisation leads to reaching conclusions without a thorough vetting of the important issues (Janis, 1972). Ignoring alternative thinking, avoiding conflicting views, and disparaging other viewpoints can take place when groupthink sets in.

Ways to control:

• Invite in outside experts (survey shows 83% of committees use consultants).
• Ensure the committee is diverse across many factors (e.g. education, professional experience, gender).
• Ensure the leader or expert in the area in question withholds his or her opinion until others have had the opportunity to voice their opinion.
• Encourage tactful questioning of the issue (e.g. exploring what could go wrong). More formally, ask a committee member to act as a devil’s advocate. Rotate this role.

Confirmation bias: This is the tendency to seek out or interpret information that “confirms” a viewpoint and ignores content that contradicts it. Studies have demonstrated that people generally give excessive value to confirmatory information, which is easier to deal with cognitively (Gilovich, 1993). There are many opportunities for this phenomenon to occur in the investment business — witness the ardent beliefs that superior past performance leads to superior future performance, a view that is often difficult to sway despite evidence to the contrary (Harbron, Roberts, and Rowley, 2016).

Ways to control:

• Recognise the tendency to adhere to and confirm previous decisions.
• Actively seek out and discuss information that is contrary to the committee’s viewpoint.
• Ensure the committee is diverse across many factors (e.g. education, professional experience, gender).

Overconfidence: A belief in one’s prowess or ability to forecast. Countless studies demonstrate our innate confidence in ourselves. The classic example (Svenson, 1981): 93% of US drivers believe they are above-average drivers. Imagine how this hubris affects group decisions about investments, given the uncertainty in forecasting asset returns and active manager results. This, along with confirmation bias, can lead a group to excessive conviction about a viewpoint.

Ways to control:

• Be humble, especially when entering a new decision area. The Dunning-Kruger Effect finds that those least competent tend to be the most confident.
• Continue to learn in the fields where you will be making decisions.
• Ask: How good is your information? Is it fact-based, gathered systematically?

Shared information bias: Groups prefer to review familiar material rather than expanding into unfamiliar areas. This is especially true if the new content’s source is a single committee member and conflicts with the shared opinion of the group (Stasser and Titus, 1985). Repeating what is accepted and known by committee members avoids conflict and anxiety, and promises to align with the preferences of the group. Doing otherwise jeopardises this comfort, despite the positive impact it might have on the decision.
Ways to control:

- Seek out alternative and outside viewpoints. This can be achieved by consulting outside experts and a diverse committee with differing viewpoints and backgrounds.
- Ensure that all members feel valued, as this will encourage those of lower perceived status to engage and add to the shared content.
- Set aside enough time to discuss all aspects of a decision. Shared information often comes out first, and the alternative views later.
- Seek to expand the data that are available to the group. This can be achieved using technology-based aids, such as search engines, expanded databases, and broader group communications, such as video conference.

Herding: A group seeks to conform to common practice or something “trendy” rather than driving the decision based on its particular situation and independent thinking. This is often a reptilian reaction to uncertainty — simply, there is safety in numbers (Baddeley, 2010). It is reasonable to be aware of what a similar investor (e.g. an endowment or pension investor) is doing, and cognisance of Prudent Man rules may put further emphasis on that awareness. Nonetheless, the herding instinct is often driven more by the desire to avoid “sticking out” or being unconventional, even if your entity’s situation merits a unique position.

Ways to control:

- Recognise the herding tendency. Diversity of thought can help members arrive at a rational decision.
- Avoid using performance as the sole criterion for choosing a specific investment vehicle.\(^5\)
- Determine if your situation is different from others, and how that difference will guide your actions.

Social loafing: This is a tendency for committee members to become less active in a group setting than when working alone (Mottola and Utkus, 2009). We’ve all probably had “that guy” in our working group in school who didn’t pull his weight — it happens on committees, too. This may be a function of a committee’s becoming so large that some become disconnected — they believe their contribution is either unnecessary or not appreciated, especially if their views are contrary to the group.

Ways to control:

- Limit committee size: Smaller is better.
- Engage members — ask for opinions, set expectations on participation.
- Assign responsibilities/accountability to committee members — define roles and tasks.
- Hold voting independently, e.g. have silent ballots.\(^6\)

Action bias: Often held out as a good thing, this is a propensity to “act”, even though not taking action may be the most appropriate decision. In investing, this often follows market shocks — a committee feels it ought to do something. But do members have sufficient data/knowledge to act prudently? Those who follow soccer may know of a study (Bar-Eli et al., 2007) on soccer goalie tendencies on penalty shots: Staying in the middle affords the highest chance of success, yet 94% of goalies dive to one side or the other. Why? As the study’s authors state: “Otherwise they look helpless, like they don’t know what to do.” Many investment advisers feel the same way — “I am paid to do something.”

Ways to control:

- Keep in mind that action bias often feeds off other biases — e.g. overconfidence and herding.
- Pause and assess: Do you have the right/sufficient information for a decision?
- Assess the decision’s subsequent impact — the downstream effect or unintended consequences.

\(^5\) For more on this topic, please see Goyal, Ilmanen, and Kabiller (2015); Wimmer, Wallick, and Pakula (2014); and Ellis (2010).

\(^6\) For more on holding independent voting, please see Mauboussin and Callahan (2014).
At the other end of the spectrum from action bias is “inaction bias”: the view that doing nothing is the safe choice (Bosse: career-long observation). Taking action could be viewed as a timing call and could be the wrong decision — the cost of being wrong is often viewed as higher than the benefit of being right, even when it has to do with portfolio rebalancing. Breaking inertia can be quite difficult. Inertia is often the result of analysis paralysis.

**Group polarisation:** People in groups tend to make decisions that are more extreme than most members would make by themselves. It need not be a more aggressive decision (for instance, a large bet on a high-risk asset class). It could be a much more conservative decision (a big cash allocation) that can be just as damaging to the long-term return of an endowment plan with a long investment horizon (Myers and Arenson, 1972). Group polarisation results from a reinforcement of one’s own views by others, leading to further (over-)confidence in the position, through shared information and general groupthink. In other words, rather than diversity of thought leading to a measured action, parallel thinking can lead to outsized positions.

Ways to control:
- Include diverse committee members. A diverse committee is less prone to polarisation as viewpoints are more likely to differ.
- Collect opinions ahead of the meeting.
- Review the risks of the more extreme position.

**Final thoughts**
“A problem well-defined is a problem half solved.”
— John Dewey

If John Dewey is right, then committees should look at their committee decision process regularly and judge whether some of the pitfalls committees face also are those their own committees face. The remedies suggested above may improve future decision-making and productivity.

Focus on the fundamentals of investing

Investment committee members often spend an inordinate amount of time focused on the aspects of the investment process that are completely out of their control — the markets, the economy, manager ratings, or the performance of an individual security or strategy. As a result, they do not devote enough energy to the fundamental principles that we believe can give them the best chance for success. Vanguard believes the following four investment principles should form the basis for the investment committee’s approach to managing its assets:

1. **Goals:** Create clear, appropriate investment goals.
2. **Balance:** Develop a suitable asset allocation using broadly diversified investments.
3. **Cost:** Minimise cost.
4. **Discipline:** Maintain perspective and long-term discipline.

**Setting goals.** Before making a single investment-related decision, every investment committee should draft its most important document, the investment policy statement. The IPS outlines the objectives and constraints for the portfolio, including the portfolio’s return target, acceptable level of risk, procedure for measuring performance, etc. Just as a building cannot be built without an architectural plan, an investment committee cannot effectively construct and manage a portfolio without a detailed IPS.

When constructing the IPS, the goals for the portfolio should be concrete and measurable. For example, “generate a return sufficient to meet ongoing operating expenses” is not a measurable goal unless the committee has already identified the dollar number associated with that goal and what percentage return on the portfolio would be needed to meet that goal. Further, the committee would need to specify the level of risk it will accept in pursuit of that goal. A more reasonable goal might be, “generate an annual real return of at least 4%, but without investing more than 70% in equities.” Stated this way, the goal is clearly defined both in terms of risk and return objectives, and is also easily measured.
Achieving balance. When constructing a portfolio to meet an identified objective, asset allocation decisions — how much of the portfolio is invested in equities, fixed income, cash, etc. — largely determine the success or failure of meeting that objective. In fact, assuming committees use broadly diversified investments, the vast majority of a portfolio’s risk and return variability over time is derived from asset allocation, as opposed to fund or security selection, or market-timing, according to a landmark study on the determinants of portfolio performance (Brinson, Hood, and Beebower [BHB], 1986). Figure 3 showcases Vanguard’s research that suggested that about 91% of portfolio variability for US investors is attributable to asset mix (Scott et al., 2016).

Given the importance of the asset allocation decision, committees should strive to construct well-diversified portfolios. Balancing the portfolio’s holdings across asset classes (that is, stocks, bonds, and short-term reserves) reduces a portfolio’s exposure to the risks common to a single asset class. Additionally, diversification within an asset class (US and international stocks; market capitalisation and style within stocks; US and currency-hedged international bonds; credit quality and maturities within bonds) reduces a portfolio’s exposure to risks associated with a particular company, sector, or segment.

Figure 3. Role of asset allocation policy in return variation of balanced funds

Selected periods, January 1990–June 2016

<table>
<thead>
<tr>
<th>Number of balanced funds in each market sample</th>
<th>United States</th>
<th>Canada</th>
<th>United Kingdom</th>
<th>Australia</th>
<th>Japan</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>770</td>
<td>739</td>
<td>792</td>
<td>600</td>
<td>467</td>
<td>74</td>
</tr>
<tr>
<td>Median percentage of actual-return variation explained by policy return</td>
<td>89.6%</td>
<td>89.3%</td>
<td>87.8%</td>
<td>93.6%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Past performance is not a reliable indicator of future results.

Notes: For each fund in our sample, a calculated adjusted $R^2$ represented the percentage of actual-return variation explained by policy-return variation. Percentages shown in the Figure — 91.5% for the United States, 89.6% for Canada, 77.0% for the United Kingdom, 89.3% for Australia, 87.8% for Japan, and 84.8% for Hong Kong — represent the median observation from the distribution of percentage of return variation explained by asset allocation for balanced funds. For the period January 1990–June 2016, the sample included: for the United States, 770 balanced funds; for Canada, 739; for the United Kingdom, 792; for Australia, 600; for Japan, 467; and for Hong Kong 74. Calculations were based on monthly net returns, and policy allocations were derived from a fund’s actual performance compared with a benchmark using returns-based style analysis (as developed by William F. Sharpe) on a 36-month rolling basis. Funds were selected from Morningstar’s Multi-Sector Balanced category. Only funds with at least 48 months of return history were considered in the analysis. The policy portfolio was assumed to have a US expense ratio of 1.5 basis points per month (18 bps annually, or 0.18%) and a non-US expense ratio of 2.0 bps per month (24 bps annually, or 0.24%).

Sources: Vanguard calculations, using data from Morningstar, Inc.
Market and asset class returns will often behave differently (sometimes marginally, sometimes greatly) from one another at any given time. Owning a portfolio with at least some exposure to many or all key market components ensures the investor of some participation in stronger areas while mitigating the impact of weaker areas; it also helps the investor set a more predictable risk/return profile. However, diversification does not ensure a profit or protect against a loss. A portfolio that is well-diversified (represented by the black composite portfolio box in Figure 4) would have been less prone to extreme performance swings.

Controlling cost. Minimising investment cost is critical to improving investment outcomes. Unlike the typical economic relationship between price and quality, higher costs don’t necessarily lead to higher returns (Harbron, Roberts, and Rowley, 2016; and Wallick, Wimmer, and Balsamo, 2015b). Every dollar paid for management fees or trading commissions is a dollar less of potential return.

Figure 4. Annual returns for asset classes are difficult to predict

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Emerging equity</td>
<td>32.1%</td>
<td>39.4%</td>
<td>5.8%</td>
<td>78.5%</td>
<td>18.9%</td>
<td>7.8%</td>
<td>18.4%</td>
<td>22.4%</td>
<td>13.7%</td>
<td>1.4%</td>
<td>12.0%</td>
</tr>
<tr>
<td>US equity</td>
<td>26.3%</td>
<td>11.2%</td>
<td>5.2%</td>
<td>31.8%</td>
<td>15.1%</td>
<td>3.9%</td>
<td>17.3%</td>
<td>22.8%</td>
<td>8.8%</td>
<td>1.4%</td>
<td>11.2%</td>
</tr>
<tr>
<td>International equity</td>
<td>15.8%</td>
<td>8.6%</td>
<td>1.8%</td>
<td>26.5%</td>
<td>10.4%</td>
<td>2.1%</td>
<td>16.0%</td>
<td>16.9%</td>
<td>6.6%</td>
<td>0.5%</td>
<td>6.6%</td>
</tr>
<tr>
<td>US bonds</td>
<td>14.7%</td>
<td>7.0%</td>
<td>–24.3%</td>
<td>22.8%</td>
<td>7.8%</td>
<td>0.1%</td>
<td>12.5%</td>
<td>1.2%</td>
<td>6.0%</td>
<td>0%</td>
<td>4.9%</td>
</tr>
<tr>
<td>International Aggregate Bond Market Index</td>
<td>4.8%</td>
<td>5.5%</td>
<td>–37.0%</td>
<td>5.9%</td>
<td>6.5%</td>
<td>–0.3%</td>
<td>6.5%</td>
<td>0.1%</td>
<td>0%</td>
<td>–0.1%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Emerging market bonds</td>
<td>4.3%</td>
<td>4.7%</td>
<td>–43.4%</td>
<td>4.4%</td>
<td>3.3%</td>
<td>–12.1%</td>
<td>4.2%</td>
<td>–2.0%</td>
<td>–2.2%</td>
<td>–0.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>3.2%</td>
<td>4.3%</td>
<td>–53.3%</td>
<td>0.2%</td>
<td>0.1%</td>
<td>–18.4%</td>
<td>0.1%</td>
<td>–2.6%</td>
<td>–4.9%</td>
<td>–14.9%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Past performance is not a reliable indicator of future results.

Notes: The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. Last observation: 31 December 2016. US equity represented by S&P 500 index, international equity represented by MSCI EAFE Index, emerging equity represented by MSCI Emerging Markets Index; US bonds represented by Bloomberg Barclays U.S. Aggregate Bond Market Index; international bonds represented by Bloomberg Barclays Global Aggregate ex-USD Bond Index (hedged); cash represented by Citigroup 3-Month T-bill Index. Composite represents 39% S&P 500 index, 21% MSCI EAFE Index, 5% MSCI Emerging Index, 24.5% Bloomberg Barclays U.S. Aggregate Bond Index, and 10.5% Bloomberg Barclays Global Aggregate Bond ex-USD Bond Index (hedged). Source: Vanguard calculations using data from Factset and Citigroup.
Higher costs can act as a headwind to investment success. Individual investment strategies with lower costs have generally outperformed their higher-cost counterparts. As an illustration, Vanguard has shown that mutual funds with fees in the lowest quartile have outperformed funds with fees in the top quartile (see Figure 5). This occurs across a wide range of strategies. Evidence like this has encouraged retirement regulators around the globe to introduce policies to promote lower fees, such as plan sponsor and participant fee disclosure in the United States.

Maintaining discipline. Investing can provoke strong emotions, particularly during times of market turmoil. Although the asset allocation decision is one of the cornerstones of achieving an objective, it works only if the allocation is adhered to over time and through varying market environments. Abandoning a planned investment strategy can be costly, and research has shown that some of the most significant detractors are behavioural: the failure to rebalance, the allure of market timing, and the temptation to chase performance. Committees must take a disciplined approach to investment decision-making to avoid overreacting to market volatility or failing to rebalance after recent performance shifted the allocation of an asset class. The best way to maintain discipline is to include guidelines for rebalancing as part of the IPS.

In summary, committees should remain focused on the four principles of goals, balance, cost, and discipline. In addition to these guiding principles, we believe committees should keep the following in mind when making investment-related decisions:

- When making assumptions about future asset class returns, do not expect future long-term returns to be significantly higher or lower than long-term historical returns.\(^7\)
- When choosing between actively managed or passively managed investment vehicles, keep in mind that consistently outperforming the financial markets can be difficult.\(^8\)
- Always remain focused on long-term results, not short-term fluctuations in the markets, or with active managers.

Figure 5. Lower costs can support higher returns

Ten-year annualised return by quartile: As at 31 December 2016

![Figure 5](image-url)

Past performance is not a reliable indicator of future results.

Notes: All mutual funds in each Morningstar category were ranked by their expense ratios as of 31 December 2016. They were then divided into four equal groups, from the lowest-cost to the highest-cost funds. The chart shows the ten-year annualised returns for the median funds in the lowest-cost and highest-cost quartiles. Returns are net of expenses, excluding loads and taxes. Both actively managed and indexed funds are included, as are all share classes with at least ten years of returns.

Source: Vanguard calculations, using data from Morningstar.

\(^7\) For more on the topic of asset class forecasting, see Davis et al. (2014).

\(^8\) For more on active-management success, see Wallick, Wimmer, and Balsamo (2015a) and Harbron, Roberts, and Rowley (2016).

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The practitioner’s view

Following are the observations of three Vanguard managers and analysts who have extensive experience with investment committees and the issues they face.

Kiesha Earle, Vanguard Institutional Advisory manager

Having served as a senior investment analyst before leading a team of investment consultants, I have had the benefit of participating in hundreds of investment committee meetings representing a variety of organisation types: e.g. nonprofit, defined contribution plans, defined benefit plans. I have observed effective committee practices, less effective practices, and some practices that were quite simply counterproductive to the committees’ stated goals and objectives. Specifically concerning nonprofit investment committees, I’ve found the composition of the committee itself to be one of the main drivers of the committee’s ultimate success.

When it comes to assembling an effective investment committee, diversity is the key. The committee should consist of highly engaged individuals who can offer unique insights and perspectives given their knowledge, experience, and particular area of expertise. True diversity of thought, however, can in many cases complicate the decision-making process, since varied opinions can make it difficult for committees to come to an agreement. So while it’s important that each member voice his or her unique point of view, the committee should remain focused on arriving at the most appropriate course of action. The most effective committee meetings I’ve attended were led by a chairperson who encouraged a healthy collaborative debate, valued different perspectives, held all members accountable for sharing their ideas, and guided the group toward consensus until key decisions were made. This approach helps to create a productive decision-making environment and ultimately assists the committee in effectively fulfilling its fiduciary obligations.

Judy Mesecher, Vanguard senior relationship manager

During my time as a director of retirement benefits, as well as in my current role as a relationship executive, I’ve found that there are several keys to having a successful DC retirement plan committee.

One of the most difficult tasks is effectively scheduling, and keeping, regular meetings. I’ve always found it difficult to schedule for an entire year in advance, but I did try to schedule the next quarterly meeting immediately following the current quarter’s meeting. My clients today who follow this practice seem to have success with keeping meeting dates on track and obtain a higher level of participation by the committee members.

When new members come onto the committee, it’s important to let them know that consistent attendance is critical, and that without a quorum no decisions can be made. I remember back in my plan sponsor days having time-sensitive items on the agenda, e.g. a fund replacement or the addition of a new plan feature like auto increase, that had to be delayed due to lack of a quorum. Holding an orientation/fiduciary training for new members — in which you cover an overview of their duties and responsibilities in addition to providing copies of plan documents, investment policies, and committee charters — also helps members know what is expected of them.

Providing advance copies of agendas and meeting materials to the committee members gives them an opportunity to prepare to discuss and vote on actions as needed. Allowing this time for committee members to preview materials is especially important when the decision comes with a significant price tag or is time-sensitive, such as adding auto enrollment to a plan.

Finally, someone who is not an active participant in the meeting should take minutes and circulate a draft of the meeting minutes in a timely manner. Waiting to draft the minutes until just before the next meeting makes it difficult for the person preparing the minutes and/or the committee to remember crucial aspects of the meeting. Minutes should be clear and concise about topics discussed and decisions made; however, they should avoid too much detail. As a plan sponsor, I had my external ERISA counsel review minutes before routing them to the committee for approval to ensure that no inadvertent red flags were raised. Some of my clients today have either internal or external counsel perform this function.
Kim Stockton, Vanguard senior analyst, the pension perspective
Because defined benefit pension plans invest to answer a specific liability, their approach to investing is quite different from that of most other investors. Also, different regulations apply to valuation, fiduciary responsibility, and other aspects of the plan. All require comprehension in order for committee best practices to be properly applied.

Consider plan structure and plan objectives. Determining the proper investment strategy depends greatly on what the pension plan sponsor has in mind for the plan. If it is an ongoing entity, then a long investment horizon and perhaps higher levels of risk-taking could be appropriate. If the plan sponsor would rather leave the pension business (a popular theme), a new set of decisions is now presented, such as addressing lump-sum offers, annuity purchases, plan closure options, and many other noninvestment decisions. This specialised body of knowledge may require a consultant or a manager familiar with and experienced in these matters.

Manage assets based on your plan’s design. For a traditional pension plan, we believe a liability-driven investment (LDI) approach is the appropriate way to measure such metrics as return and risk. This way to measure risk differs greatly from most other asset management approaches, so committee members must understand this perspective. A cash-balance plan is yet another design, and requires an understanding of how to address nuances such as crediting rates versus discount factors.

Implement a glide path approach to LDI investment strategy. For a traditional pension plan, an effective LDI approach is glide path derisking, which phases in a more conservative asset allocation as the plan’s funding level improves. Other pension designs, such as cash-balance or municipal plans, may also choose to install a risk glide path in order to mitigate risk long term, although measures of risk will be different for them.

Use a dynamic investment policy statement. The investment policy statement is fundamental to guiding committee action, and a “dynamic” one will ensure proper execution of a glide path implementation. The dynamic IPS installs the glide path or derisking strategy allocation shifts within the policy statement itself to ensure timely action is the committee’s default action (adhering to policy), and avoiding the many behavioural biases committees face.

Conclusion
As evidenced by the length of this review, the steps to investment committee success are many and require constant attention: It is not a “one and done” type of decision. Knowing that the fiduciary requirements are met means better sleep for all. Addressing committee membership in terms of size, expertise, and diversity can provide a basis for success. Adhering to a well-tuned agenda means the important issues will be addressed. Paying attention to the human interaction issues we all face should lead to better committee communication. Finally, Vanguard believes an investment committee should incorporate the four pillars of investing into its process. We believe following these steps can lead investment committees to generate better decisions and better results.

References


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Appendix

Risk tolerance
Committee members tend to be less aggressive with entity assets than with their own. That could be an issue because entities may have longer horizons than the members and may be able to shoulder higher levels of risk to meet needs.

Figure A-1. Risk tolerance of committee members

![Risk tolerance chart]


Tenure
This chart shows turnover is low for all types of committees. If there were term limits for members, the number with tenure of one year or less would be higher and those with more than ten years would be much lower.

Figure A-2. Average tenure of committee members

![Tenure chart]
