

Board/Investment Committee Views and Messaging During Trying Times

Who would have thought that non-profits would be governing in a virtual environment twelve, six or even three months ago? Yet virtual board and committee meetings have indeed replaced conference rooms and trays of sandwiches. Nevertheless, it is important to note that the objectives of these virtual meetings remain unchanged. The non-profit Investment Committee has a fiduciary responsibility to preserve and oversee the organization's resources by establishing policies that govern investments, operations and finances, among other items.



1. Governance Structure

Many non-profit boards have individual committees that are subject-specific, while smaller institutions have a single board structure that handles all governance topics. Take a moment to ask yourself if your board's current structure is adequately setting policy, establishing processes and communicating in a virtual environment.

The most recent three months have also posed challenges to facilitate nimble and timely decision-making. Therefore, a committee comprised of highly-experienced investment professionals may be suited to a non-discretionary consulting approach. But even these leaders may be uncomfortable with the added personal liability that comes with that structure. A discretionary outsourced chief investment officer (OCIO) structure can help facilitate more agile risk management and take advantage of market opportunities, as well as share the liability with a true co-fiduciary. OCIO adoption by a variety of plan types has increased dramatically in the past few years for a variety of reasons, including the points mentioned above.¹

2. Policies

Taking stock of current policies and understanding the amount of risk that the institution is taking on through its policies is vital to its sustainability through adverse conditions. The Investment Committee should initiate policy reviews for effectiveness during a stress-filled environment. Two of the most important policies are the Spending Policy and the Investment Policy.

For example:

- The Spending Policy should accommodate altered revenue and cash flows due to enrollment uncertainty. Institutions that are highly tuition-dependent are particularly at risk right now. Cash flow modeling with a variety of scenarios can provide data points to facilitate dialogue to help navigate through the fall and into next year. Moreover, comparing different spending formulas can be informative, particularly in low return environments.

¹ "OCIO Managed Assets Leap 23%"; Cerulli Associates.



- The Investment Policy should have ranges around asset class allocations to allow for market fluctuations. Staying “in policy” is a fundamental governing principle for the investment committee and OCIO or individual managers. Also, make sure there is enough “wiggle room” in these ranges to keep the portfolio in policy.

3. Processes

Policies define processes that are typically delegated to staff and/or outsourced. The Board and Committee Chairs should be working closely with staff to navigate and assess these processes, asking what could go wrong and what will volatility do to operating support. Each policy should define processes that help implementation. Some process examples particularly relevant to the Investment Committee include rebalancing, stress-testing the portfolio, cash flow modeling, and Monte Carlo simulations to assess the mitigation of overall portfolio volatility and return outcomes. Most outside consultants or OCIO providers can provide these services to help ensure the portfolio stays in policy and achieves the level of return needed to support the institution.

4. Communication

How is the Investment Committee communicating with internal and external constituents (staff, the board, investment providers)? Without the ability to meet face-to-face, maintaining business as usual in a virtual environment is new to most. Mail and email are still good choices, but many institutions have expanded their communication efforts to include social media for additional transparency and reach. A good amount of transparency goes a long way to assuaging unease, speculation and misinformation. Social media has proven to be a disruptive technology throughout the pandemic, offering ways to meet, disseminate information, take polls, stay in contact and elicit feedback. Whether by video, email or private group post, acknowledging concerns and stating what is being considered and done behind the scenes is a way of virtual “hand-holding” through periods of instability.

The Investment Committee should be taking the time to review policies and processes and report back to the board on its findings and recommendations, cautioning that change should be made with a long-term view. Adopting a discretionary OCIO model can relieve the Investment Committee during stressful times, as well as periods of unusual market volatility.

The bottom line is to stay connected while we are apart. The board and the Investment Committee can lead through the current disruption through innovative thinking and messaging to help ensure the institution exists for future generations.

For questions about this report, please contact your PFM relationship manager.

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