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Nonprofit Management Panel Quick Poll (February 2006):

Nonprofit Executives Want More Strategic Direction from Investment Committees; Less Time Spent on Tactical Decisions

Is there a misunderstanding between what nonprofit executives want the Investment Committee to do and their actual day-to-day activities? In a recent survey of 60 nonprofit executives conducted by the **Nonprofit Management Research Panel**, an independent panel of executives responsible for managing the overall direction of a nonprofit organization, the executives indicated that the Investment Committee should be a strategic resource focused on guiding organizational growth. However, the reality is Investment Committees are dedicating significant time and resources to the tactical details of the investment process, with relatively little time leftover to devote to strategic direction.

Although it may be common for strategic decisions to be pushed off the “to do” list, the potential long term risk makes it worthwhile to consider alternatives, for example:

- Align the investment process and success metrics with the organization’s mission to ensure strategic decisions will have the intended impact
- Gain a thorough understanding of the legal responsibilities of the Investment Committee and objectively evaluate and proactively monitor compliance
- Leverage external resources for the tactical activities, to enable the investment committee to spend more time on strategic decisions

This poll was designed to gain further insight into current investment processes, how their investment committee’s time is being utilized and views around delegating current tasks. Below are some of the key findings:

- **43% feel their current investment management process can be more effective in using the investment committee’s time and resources.**

SEI’S PERSPECTIVE: Almost half of the executives believe their committee can be more effective if they better allocate their time and resources. In a low-return and increased regulatory environment, the investment management process requires significant due diligence. This appears to have had an impact on the organization, as almost all of those polled (87%) feel that their investment committees should not increase the time spent on manager selection. In fact, nearly one in every six felt they should be spending less time on manager selection. Often, investment committees meet infrequently and have high turnover, which could result in inconsistent oversight and decision making. Investment committees might want to consider evaluating ways to shift time and focus from every aspect of manager selection to a higher level of accountability and management. This could return capacity to the investment committee, enabling more opportunities to strategically align the investment process with numerous organizational issues.

- **88% of the executives polled did not list manager selection as the primary responsibility of their organization's investment committee.**

SEI'S PERSPECTIVE: An overwhelming majority of those polled did not feel manager selection was a primary responsibility of their investment committee. Additionally, the executives would like to see less committee time spent on manager selection, but more than half of them (52%) believe that won't happen because the committee feels manager selection is their responsibility and won't delegate it. The investment committee's interpretation of their fiduciary responsibility often drives this perspective. While there is no arguing that the investment committee is ultimately responsible for the investment "strategy," they are in fact able to delegate the evaluating, selecting, terminating and replacing of managers to an outside co-fiduciary. According to an article written by GROOM Law Group, "an investment advisor's written acknowledgement that it accepts co-fiduciary responsibility in setting investment policy will result in the sharing of fiduciary responsibility, and its written acknowledgement that it accepts exclusive responsibility for *implementing* that policy (as manager-of-managers or otherwise), generally should result in the *shifting* of fiduciary liability from the board to the manager.[1]"

- **73% of those nonprofits polled use a third-party to assist in the management of selection, monitoring and firing of investment managers.**

SEI'S PERSPECTIVE: While three-quarters of those polled already use external parties to assist in manager selection, many are reevaluating the value those providers are bringing to the organization. From a manager selection standpoint, for many nonprofits the current approach has resulted in an inability to effectively utilize the investment committee as much of their time is spent on tactical investment decisions. Nonprofits should consider evaluating how well their third-party is assisting the organization in key investment areas such as improved diversification, reduction in risk, performance consistency and maximized return. Additionally, they might want to consider how investment responsibilities are shared and if their third-party partners are helping the organization focus the time of investment committees, employees and board members on the organization's primary mission.

Conclusion

The results of this quick poll imply that executives managing nonprofits feel that their investment committees can be better utilized by spending less time on tactical issues such as manager selection and more time on providing strategic direction to the mission. The issue appearing to have the most impact on decisions around the delegation of manager selection appears to be the uncertainty around whether or not nonprofit investment committees are legally able to delegate. For more information, email seiresearch@seic.com.

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[1] Matta, Richard "Re-thinking the investment consultant model," Foundation and Endowment Money Management, December 2004