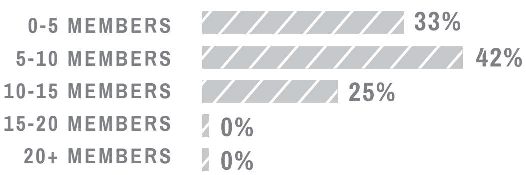
HIGHLAND

Governance and Risk Survey: Policy vs Practice

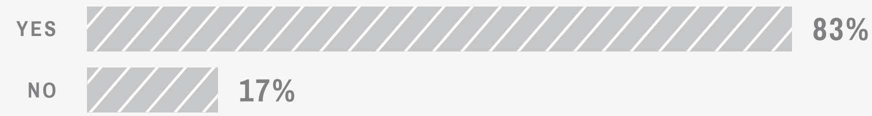
SEPTEMBER 2019

1 How many members are on your committee or board that makes the investment decisions?



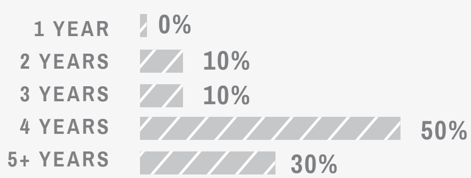
- *A 5- to 10-member investment committee is an ideal size for many mid-sized organizations—it is large enough to capture diverse, experienced, and expert opinions, but small enough to function smoothly and provide everyone a voice.*
- *There is an inverse relationship between the size of the committee and the magnitude of each member's contribution.*

2 Do committee members have term limits?



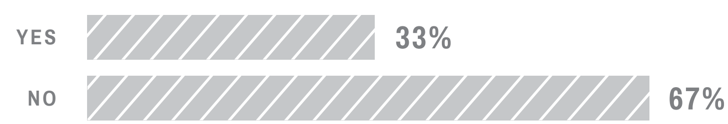
- *The vast majority of the respondents have set term limits for committee members. Term limits are the enemy of complacency and stagnancy—they keep perspectives fresh and dynamic and foster an environment where new ideas flourish to the committee's benefit.*
- *That said, the time limit should not be too short—frequent committee turnover could generate instability and a loss of institutional memory/knowledge.*

3 If committee members have term limits, how long are members' terms?



- *Half of the respondents have a 4-year term limit; a healthy range of a 4- to 7-year term limit exposes committee members to a full market cycle, and keeping committee members like-minded, with the long-term nature of the fund, constitutes a sound approach.*
- *If a committee employs longer term limits, consider limiting a member to 1 or 2 terms.*

4 Do you have non-board committee members?



- *The majority of respondents did not have non-board members on their respective investment committees. However, if wanting to involve additional community leaders or encompass more specialized expertise, some boards opt to nominate non-board members to be on an investment committee. In nominating and appointing non-board members to positions on the investment committee, the board needs to ensure that such members are committed to the mission of the organization—and have an in-depth understanding of how the investment program can impact the financial stability of the organization.*

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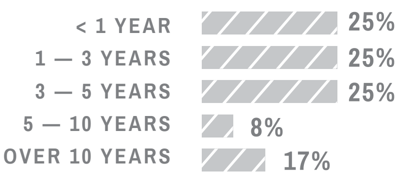
5 Over what time periods do you evaluate performance?



- *75% of the respondents evaluate performance on less than a 5-year time horizon. It is imperative that the committee evaluates performance through the appropriate lenses. Often, when performance is evaluated over shorter time durations, there is a failure to capturethe full market cycle, e.g., capturing only the upside of the market, or worse, capturing only the downside.*

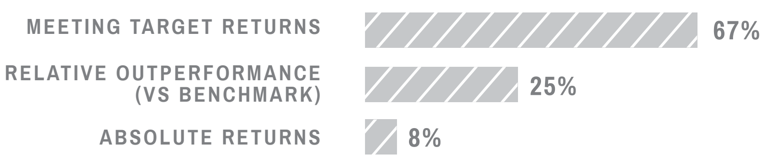
6 Does the committee participate in a risk survey?

- *Surprisingly, only 42% of the respondents participated in a risk survey. A risk survey can establish and identify a committee's risk tolerance as a whole in effective fashion; survey feedback helps quantify and qualify the emotional risk tolerance of the organization. The survey also serves as a tool to verify that all committee members have a common goal, risk tolerance, and objective for the investment program. It is vital that committee members have the same expectations—especially during volatile markets.*
- *A risk survey should be conducted at the onset of the relationship and, at minimum, every 3 to 5 years thereafter. Doing so will confirm that all committee members and management are comfortable with, and certain on, the assumed level of risk.*

7 How does the committee define risk?

- *Over half of the respondents define risk as permanent loss of capital. The biggest risk to a nonprofit is losing permanent capital, which could result in an inability to effect the organization's mission.*

8 How does the committee define success for investment portfolios?



- *Performance is a major component by which committees measure success of the portfolio.*

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