TRUE NORTH INSTITUTE

TNI CIO Forum Governance Session Summary – 3rd April 2025

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This note seeks to capture the learning of the True North Institute from the TNI CIO Forum and other sources on institutional investment committee governance, including key takeaways on the impact of endowment scale. We have majored on one particular suggestion which is about there being sufficient board knowledge and orientation for board members to be value added and effective. We found this to be the most thought-provoking idea, with the logical actions to provide a threshold level of board contextual understanding to be part of IC governance best practice.

How would your investment committee/board rate itself on governance?

My experience is that nearly every IC member will have a somewhat different view on the role of the IC. A dispersion of views across the board/IC on what their role should be will have many ICs scoring themselves poorly on governance. One of our Forum CIOs noted that their solution was to hold four orientation sessions for the board each year, approximately one per formal board/IC meeting, usually paired. Orientation sessions would cover updates on the institution (e.g., university spending needs) but, most critically, go deep on the rationale for the key planks of the investment policy including risk budget, liquidity, currency, conflict policy, team size, external communications, internal team size, team management, direct investing vs third party management, outsourcing of various parts of the investment value-chain, and, most importantly, covering special topics that are key to some of the upcoming investment decisions. We elaborate more on these "orientation" topics below.

One of my favourite clients at Partners Capital for 20 years was a prestigious high school endowment with a "who's who" investment committee comprised mostly of leaders in the asset manager world. Meetings early on often found us devoting most of the meeting time to debating the approval of an individual asset manager, until one of the most seasoned of investment committee members forced a discussion on governance onto the agenda which clarified that individual manager selection decisions were delegated to the internal/OCIO team, so that adequate time could be devoted to higher level, more impactful, decisions including overall portfolio investment policy, risk budget, strategic asset allocation, manager selection/deselection principles, and potential near term risk management moves. Those rules stayed in the memories of IC members through their generations and were embedded by virtue of briefings that new IC members got before joining.

Effective governance hinges on a foundational principle highlighted in the Partners Capital Investment Committee Best Practices report: a clear separation between the board's oversight role and the operational management of investments. As Charles D. Ellis aptly stated, "the job of the investment committee is to ensure that those individuals who are responsible for investing the institution's assets are doing so in compliance with the agreed investment policy".

The best idea: Board Orientation Meetings (i.e., dedicated investment Context and Policy meetings)

Only you can decide if four orientation meetings a year could work for your board. It would seem to me that "orientation" can cover more than just the IC role, but go beyond that to cover **"critical investment context"** including how to tackle social issues (campus protests re portfolio holdings), alignment of investment policy with mission, institution's spending scenarios, communication strategy / transparency with various audiences, liquidity management, conflict policy, internal team size and structure, etc. Many of these critical contextual topics often get brushed under the carpet as there is little time for them in the routine quarterly IC meetings as "special topics," as they would crowd out the usual focussed IC agenda (macro, performance, actions).

I would argue for at least one **"governance and investment policy"** IC/board meeting a year for a full day to cover these contextual issues, but also to revisit key strategy issues including risk budget, strategic asset allocation, due diligence approach/depth, performance benchmarks, rebalancing policy, ESG, DEI, Committee size and composition, internal team assessment, etc.

So that is the one big IC governance recommendation. Other suggestions include:

- Size of board/committee: small is better – 5 to 9
- Include senior administrative staff on IC
- "Trial or probationary" period for new IC members – two-way assessment of fit
- New member formal induction by older IC members
- Old members "discipline" new member's behaviour
- Chairman role is key for many reasons, and they should generally "have the CIO's back"

Impact of Size on Investment Board Governance Best Practices

I see two governance impacts of portfolio size. Size may put the institution more into the public limelight, calling for more governance time to be spent on external relationship and communications management. Larger institutions may have a larger universe of talent to draw on for board membership, but my own experience would suggest that smaller prestigious institutions like Oxford University (£5B AUM) can attract remarkable talent to their ICs, as well.

Our discussion made a detour into portfolio size trade-offs on investment strategy which in turn have more internal governance implications including:

Manager access: There is an optimal portfolio AUM size where the portfolio is small enough to access smaller niche, specialized "boutique" managers (e.g., lower middle-market buy-out firms) with higher alpha emanating from their small scale, but the institution's AUM is large enough that the ticket size is meaningful to the boutique and non-boutique manager. On the other hand, large asset pools can establish longer term value-added relationships with some of the most talented managers, accessing fee-free co-investments, generally better terms, segregated mandates tailored to the institution's needs and input on macro views and investment themes. Where the portfolio sits on this spectrum will dictate staffing specs and organisation structure.

Talent: Scale obviously affords the most talented investment team members (assuming no barriers to paying market compensation) and the scale to specialize (possibly with minors and majors). However, these advantages plateau beyond a certain threshold. At some point there are diminishing returns from a lack of nimbleness and heavy-handed internal decision-making to avoid internal friction.

Tactical (or Dynamic) Portfolio Management: Many large endowments adhere to rigid, long-term asset allocation strategies, which can limit their ability to adjust portfolios quickly in response to emerging opportunities or market dislocations. This inflexibility often arises from bureaucratic inertia, where decision-making becomes more layered and consensus driven. In contrast, smaller or more nimble organizations are often better equipped to capitalize on trends more effectively. A compelling example of overcoming these limitations at scale is the Swedish pension system, which employs a structure similar to Citadel's multi-pod framework. In this model, independent teams manage distinct investment strategies, fostering specialization through deep domain expertise and enabling faster, more agile responses to market shifts.

Conclusions

The most effective institutional investment committees or boards will be those whose members are fully aligned on what their role is and is not. Each member will have gone deep into the underlying rationale for key investment policies and either agree with those or agree to disagree. No member should simply accept inherited policies. The board is focused on setting investment policy and monitoring the internal team's activities and decisions to ensure they are investing the institution's assets in compliance with that policy.

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