

For professional advisers only

Managing an Effective Investment Committee

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Running an investment committee effectively

The purpose of an investment committee is to oversee the group investment strategy from a number of perspectives and to ensure that the best interests of both the business and its clients are at the core of all investment activity. This might range from the selection of suitable attitude to risk and stochastic modelling tools to strategic and tactical asset allocation and fund selection. For many groups, the de-risking and operational efficiency of Centralised Investment Proposition has brought a new perspective in the regular oversight of third party or sub-advised services.

How can you ensure that an investment committee is running effectively? What is the best practice and how can the committee serve the best interests of the consumer and the business?

Three main areas to consider:

1. Role/Purpose
2. Structure
3. Process

All should be defined as the 'Terms of Reference'
An important document that needs care and attention in its creation

1. Role

- To define and maintain the best interests of the clients
 - To ensure suitability
 - To monitor charges
 - To monitor performance
 - To manage risk
 - To 'treat customers fairly'
- To define and oversee group investment strategy
 - To select and monitor external suppliers
 - Attitude to Risk/Stochastic tools
 - Research
 - CIP constituents – Fund of Funds, Discretionary Fund Managers and Managed Portfolio Services
 - Platforms
 - To define asset allocation – Strategic and Tactical
 - To select funds
 - To define and monitor portfolio construction
 - To set and monitor mandates for sub-advisory and/or internal portfolios
 - To oversee portfolio construction
 - To monitor performance
- To monitor and mitigate group risk
 - Regulatory risk
 - Brand risk
 - Operational risk
 - Conflicts of interest

2. Structure

- Membership
 - **Chairman – who should be Chairman?
– Internal or external?**
 - **Senior Executive**
 - **Practitioner**
 - **SME Internal**
 - **SME External**
 - **Compliance**
 - **Secretary**

Things to Consider

- What constitutes Quorum?
- What is the voting structure?
- Rotation of individuals (keeping it fresh)
- To whom does the committee report?



- What is the committee empowered to approve?
- What is the committee's relationship to other committees?
 - Board
 - Risk and compliance committee
 - Operational committee
 - Marketing committee

3. Process

- Diarised regular meetings – quarterly?
- Organised agenda – define the criteria in the terms of reference – Inputs and outputs
- Minuted and filed
- Prior distribution of papers – for many items the meeting is verification rather than discussion
- Previous minutes and actions
- Regular reporting
 - Risk and control log
 - Breach log – asset allocation, fund limits
 - Large deals
 - Operational process – separate committee that reports to Investment Committee and Board?
- Consider publishing internally
- Consider publishing to clients

Terms of Reference

Investment Oversight Committees

(Insert Company Name Here)

1. Membership

- 1.1 The Board shall appoint members of the Committee. Only members of the Committee and any other Board Directors have the right to attend Committee meetings. Other individuals may be invited to attend all or part of any meeting as and when appropriate.

In addition to the members of the Committee appointed by the Board at least one senior investment representative from the appointed provider of the Portfolio Management Service will attend each meeting of the Investment Oversight Committee. For a minimum of two meetings per year attendance will be required in person.

2. Secretary

- 2.1 The Chairman of the Investment Committee will appoint a secretary for each meeting.

3. Quorum

- 3.1 The quorum necessary for the transaction of the business will be two members.

4. Frequency of Meetings

- 4.1 The Committee shall meet quarterly and otherwise as required.

5. Notice of Meetings

- 5.1 Meetings shall be arranged by the Chairman of the Committee and at request of any of its members.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be sent to each member of the Committee and to any person required to attend. Supporting papers shall be sent to Committee members and to other any attendees as appropriate, at the same time.

6. Minutes of the Meeting

- 6.1 The secretary shall minute the proceedings, resolutions and actions of all meetings of the Committee, including recording of the names of those in attendance.
- 6.2 Minutes of the Committee meetings shall be circulated as soon as practicable to all members of the Committee and to all members of the Board.

7. Roles and Duties

The role of the Committee is to:

- 7.1 Establish the agreed criteria for which funds will be included and excluded from the proposition.
- 7.2 Monitor the investment performance of each individual Fund within the proposition against its stated investment objectives. The Committee will formally assess each Fund against:
- (i) The Fund's Identified Outcome
 - (ii) The Fund's long term return objective
 - (iii) Any agreed composite benchmark
 - (iv) Appropriate time horizons, recognising that this may differ for each fund

- 7.3 The Committee will formally assess the Passive Investment Portfolios against:
- (i) The portfolios' long term return objectives
 - (ii) Any agreed composite benchmark
 - (iii) Appropriate time horizons, recognising that this may differ for each fund
- 7.4 Review and agree any changes, and the supporting rationale, to the strategic asset allocation strategy and any tactical asset allocations positions adopted or proposed.
- 7.5 Review all investment transactions within the investment portfolios on a quarterly basis.
- 7.6 At least annually review and agree the Investment proposition and any Investment Policies, Statement of Objectives and/or Mandate(s) for each of the Funds and Investment Portfolios to ensure that these remain relevant to the needs of the target clients.
- 7.7 Maintain oversight of the cost to investors of the underlying Fund Manager's charges within the Funds and Portfolios, to ensure that this remains within what the Committee believes to be acceptable.
- 7.8 Review any breaches to the agreed Investment Portfolio investment mandates and remedial action taken or required.
- 7.9 Advise the Board on the appointment and/or termination of the service provider contracted to support the Investment Proposition/Fund selection and the sub advisory services provided in management of the Portfolios.
- 7.10 The Investment Oversight Committee shall report its discussions to the Board by distributing the minutes of its meetings and, where appropriate, by an oral report at the next Board meeting.

8. Authority

- 8.1 The Committee is authorised by the Board to:
- (i) Seek any information it requires from any employee or director of the Group to perform its duties.
 - (ii) Obtain at the Group's expense external legal or other professional advice on any matter falling within its terms of reference; and
 - (iii) To call on any employee to attend a meeting of the Committee as and when required.
- 8.2 The Committee shall:
- (i) Be provided by the Company with sufficient resources in order to carry out its duties.
 - (ii) Be provided by the Company with appropriate and timely training.
 - (iii) At least once a year, review its own performance, constitution and terms of reference to ensure that it operates effectively and recommend any changes it considers necessary to the Board for approval.



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