

# Effective Governance During Periods of Volatility

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Investment Committee members should not lose sight of long-term goals and objectives during periods of extreme macroeconomic and/or capital market volatility.

The current commentary about inflation and recession concerns that have dominated the news cycle have tended to focus on the short-term. Exacerbating this situation is that internal and external stakeholders often increase their scrutiny of an organization's management teams and operating conditions during difficult and/or volatile periods. This inherently places additional pressure on board members and management, forcing them to answer stakeholder questions about the current environment or their plans to manage the current crisis. The unfortunate result of myopic thinking is that few conversations seem to be focused on long-term positioning and expectations, which could ultimately lead to unintended consequences.

In short, in times like this, investment committees should attend to the hallmarks of effective governance practices: process and documentation. Moreover, they should:

- ▶ Not overlook the importance of having a sound strategic policy and continue to evaluate the appropriateness of long-term goals and objectives
- ▶ Not get distracted by the noise created by the current news cycle

Topics of discussion should include:

- ▶ Projected spending rate/actuarial assumed rates of returns
- ▶ Target asset allocation, return assumptions and variables impacting these calculations

To be clear, organizations should not overlook short-term considerations. However, simultaneously maintaining a clear and deliberate focus on these longer-term oriented discussions is a good way of demonstrating effective governance practices through periods of uncertainty.

## Focus on What We can Control

With the world in a seemingly constant state of flux, increased volatility has led to increased uncertainty, which provides an opportunity to reflect on the variables we can control. It is difficult to make unbiased decisions in the midst of uncertainty – especially when the news is not good.

This brings us back to effective governance practices and an evaluation of your current strategic policy, service providers, including underlying investment strategies, and governance structure.



This evaluation may be broken down into three parts:

### Look Outside: Evaluate your service provider

- ▶ **Performance:** What does your provider claim as a strength/edge for their investment process? Has that claim been factual over both the short and longer term? If so or not, why?
- ▶ **Responsiveness:** What actions has your provider taken to manage your assets during volatile times?
- ▶ **Communication:** What has been the level of communication and have expectations been met?
- ▶ **Level of transparency:** How transparent has your provider been about performance, expectations and the level of uncertainty?
- ▶ **Fit:** Does the current offering match your strategic needs?

### Look Inside: Evaluate your Investment Committee

- ▶ Have members been engaged or provided the insight needed based upon their background?
- ▶ Does your board have clearly defined duties and a documented charter?
- ▶ Do you need to make changes to the board makeup? What areas of expertise might the board need to advance or augment capabilities?
- ▶ What conferences or seminars could your board members attend to facilitate the exchange of ideas amongst peers?
- ▶ Have we considered performing an independent review of your investment program, policies, and board within the past three to five years?

### Look Ahead: Evaluate the Strategic Direction of your Organization and Plan Goals

- ▶ Does your current strategy match expected liabilities or cashflow needs over the next three, five, and 10 years?
- ▶ How do we compare to your peers or others with similar long-term goals?
- ▶ Based on your goals and stakeholders, do your objectives either match, help or detract from your underlying purpose?

In volatile and uncertain times, management/plans and trustees should strive to be more in sync with each other. The overarching goals of an investment committee/board members and plan/management may be considered:

- ▶ Board and management think and work together to discover strategic priorities and drivers
- ▶ Maintain a board structure that mirrors a plan/organization's strategic priorities
- ▶ Board and staff discuss strategic data from multiple sources



Aligning the investment committee around these points, along with taking a deeper dive into the elements influencing strategic policy and long-term objectives, should help trustees/board members discern challenges and opportunities, as well as help support assumptions and decisions made to determine the overall strategy.

## Final Thoughts

Maintaining a consistent focus on long-term goals is vital, as is having clear, concise communication with the plan/management. During the pandemic, one of the things we realized is that short-term concerns often dominate, distract and drown out conversations around long-term strategy. A thorough understanding of short-term concerns and expectations is important and can help trustees navigate near-term hurdles. However, this must not be at the expense of long-term strategic planning.

Our view is that reevaluating your service provider, trustees/board/plan, along with maintaining a keen eye toward the future and long-term implications, are effective practices and keep the board focused on its goals and fiduciary duties.

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**To learn more or discuss in greater detail, please contact us:**

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