Navigating the Leadership Labyrinth: Strategies for Purposeful and Successful Succession for Endowments and Foundations

June 18, 2024

AGB ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

Today's Speakers

Nikki Kraus, CFA, president and chief client officer, Strategic Investment Group

Nathalie Cunningham, CFA, CAIA, managing director, client portfolio management, Strategic Investment Group

Jackie O. Gifford, managing director, public markets, Strategic Investment Group

STRATEGIC THINKING • INSPIRED INVESTING

AGB Webinar

Navigating the Leadership Labyrinth: Strategies for Purposeful and Successful Succession for Endowments and Foundations

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Presenters Biographies

Nikki Kraus, CFA
President and Chief Client Officer, Strategic Investment Group

- President and Chief Client Officer of Strategic Investment Group. She is a member of the Strategic's Board of Managers and serves on the firm's Executive Committee, charged with setting firm strategy and overseeing the management of day-to-day operations. Nikki's responsibilities include leading the Client Development, Finance, and Human Resources management functions. As Chief Client Officer, she interfaces with all of the firm's clients to ensure that Strategic is delivering the highest quality relationship tailored to each specific client's needs.
- Active in the OCIO industry for nearly 30 years, Nikki has extensive experience advising investment committees on best practices in setting investment policies and establishing sound governance practices.
- Prior to Strategic, she served as Director of Institutional Business at Hirtle, Callaghan & Co., and worked with OCIO clients at SEI Investments Company.
- Serves on the Investment Advisory Subcommittee of the John Templeton Foundation, the Investment Committee of the Carnegie Institution for Science, the U.S. Impact Committee for 100 Women in Finance, and as a mentor for Girls Who Invest.
- Co-author of *Endowment Management for Higher Education* (most recent edition published in February 2022), a publication released by the Association of Governing Boards of Universities and Colleges (AGB), and *Endowment Management for Foundations and Nonprofits*, published in October 2022, in partnership with AGB and the Council on Foundations.
- B.A. in English and Computer Applications from the University of Notre Dame.
- CFA charterholder and a member of the CFA Society of Washington, D.C.
- Years in Industry: 29.

Presenters Biographies

Nathalie Cunningham, CFA, CAIA®
Managing Director, Client Portfolio Management, Strategic Investment Group

- Directs the development, implementation, and ongoing management of client-focused investment solutions leveraging the full resources of the firm.
- Prior to joining Strategic, she served as a Senior Investment Officer for Cornell University, with responsibility for a range of traditional and alternative asset classes in the university's $10+ billion endowment. Prior to working at Cornell, she served as Director of Public Market Investments for the University System of Maryland Foundation. Before transitioning to endowment management, she served as Partner and Portfolio Manager for Terrapin Asset Management, LLC.
- Serves as the Chairperson of the American Chemical Society's Pensions & Investments Committee, which oversees an aggregate asset pool of more than $1.8 billion. She is also a member of the Board of Directors for The Dapper McDonald Foundation.
- M.B.A. from New York University's Stern School of Business and B.A. from McGill University.
- Chartered Alternative Investment Analyst (CAIA®) charterholder.
- CFA charterholder and a member of the CFA Society of Washington, D.C.
- Years in Industry: 21.

Jackie O. Gifford
Managing Director, Public Markets, Strategic Investment Group

- Co-leads the public markets team, directing the firm's activities in equities and fixed income investments.
- Prior to joining Strategic, she served for over 10 years at The Annie E. Casey Foundation, most recently as Director of Marketable Investments, and, prior to that, as Director of Hedge Fund Investments.
- She has more than 25 years of investment experience including direct portfolio management and product management across equity, fixed income, real assets, and derivatives.
- Served for over a decade in leadership roles within the Board of Directors for the Baltimore Child Abuse Center (BCAC) including as Vice President, Treasurer, and Secretary.
- M.B.A. from Loyola University Graduate School and a B.A. in Economics with a minor in Finance from Pennsylvania State University.
- Years in Industry: 32.

AGB's Keys to Governance Success

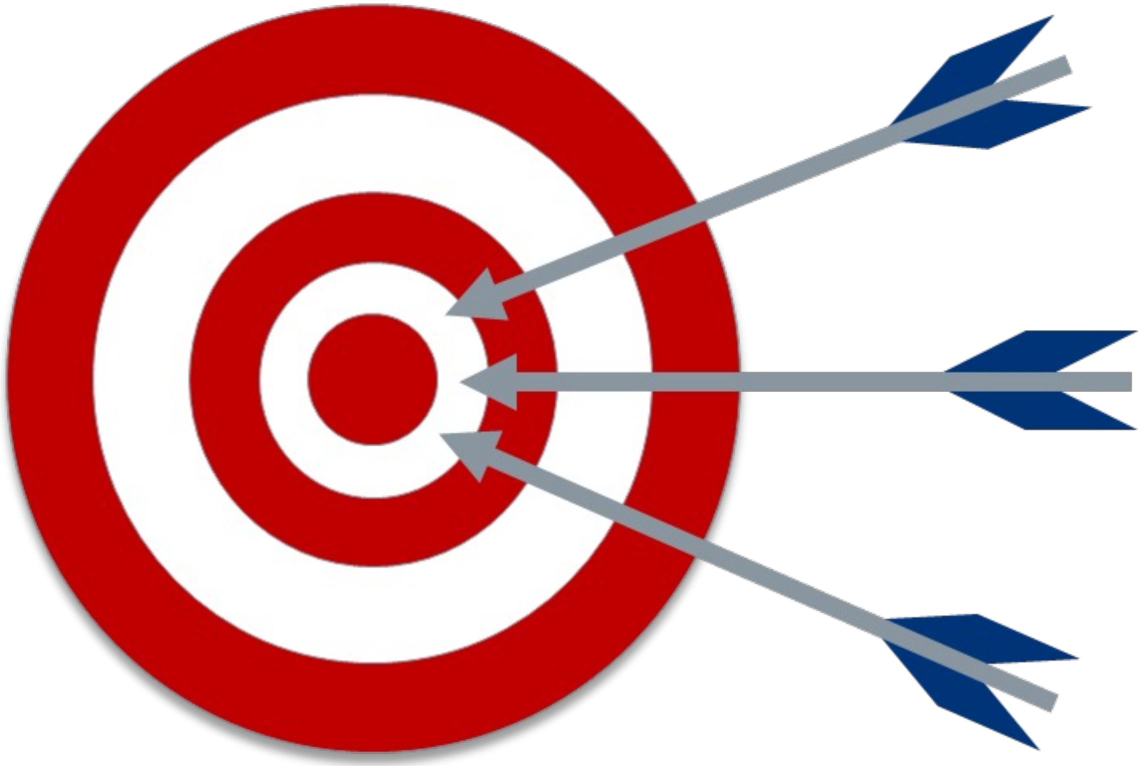
Get the Right People

Focus on the Right Things

Do So in the Right Way

Succession Planning and Preserving Institutional Memory

The Three Primary Goals of Succession Planning



Preserving Institutional Memory

Welcoming New Ideas

Finding the Best Committee Leadership

Committee leaders should not be new to the Board. Use of Vice Chair structure works well.

Successful Executive and Board Successions
The Critical Importance of Leadership Development

- Smooth transitions in Board leadership set the foundation for smooth transitions in Executive leadership.
- Succession planning at the Board level is best accomplished as an *ongoing* Board activity.
  - Board members should be regularly assessed so that those with the greatest leadership potential are identified and cultivated.
  - These members should be considered for new responsibilities, to facilitate their development. Consider having these members chair different committees over time.
  - Education is a critical variable and should initially consist of a new board member onboarding. It can also encompass regularly scheduled education "forums" designed to provide a refresh to more tenured members.
  - A Vice-Chair structure, in which a Chair and Vice-Chair work together on important issues can build trust and expertise, and position the Vice-Chair to effectively transition to the Chair role.

The demand for new leaders is *ongoing* and is best addressed by *ongoing* active recruitment and development processes.

Case Study: Investment Committees

The Investment Committee

- Boards establish investment committees to provide advice on investment policy, to oversee policy implementation, and to monitor investment management.[1]
- The task of the committee is "more governance than execution."[1]
- Some investment committees can be deficient in oversight, failing to achieve the right altitude (they are too operationally-focused), distance (they are too close to operational decisions), and horizon (overly short-term oriented).[1]
- Committee members are fiduciaries and thus bear duties of care, loyalty, and obedience.

"Competent [committees] have a preponderance of people of character who are comfortable doing their organizational thinking in multi-year time frames. These people understand ambiguity and uncertainty, and are still prepared to go ahead and make the required judgments and decisions. They know what they don't know."[2]

[1] Koedijk, K., Slager, A., Van Dam, J. (2019). Achieving Investment Excellence: A Practical Guide for Trustees of Pension Funds, Endowments and Foundations. (p. 203). John Wiley & Sons.
[2] Ambachtsheer, K.P., Ezra, D. (2008). Pension Fund Excellence: Creating Value for Stockholders. John Wiley & Sons.

What Does it Mean to Be a Fiduciary?

- Investment governance involves a relationship between the fiduciary (the agent) and the beneficiary (or principal), on whose behalf the fiduciary discharges legal obligations, customarily known as "fiduciary duties."

- The chief responsibilities of a fiduciary are care, loyalty, and obedience.
  - **Care**. This responsibility is often framed by the prudent-person standard, which holds that a fiduciary exercise the care an ordinarily prudent person in a like position would exercise under similar circumstances
  - **Loyalty.** The fiduciary should discharge his or her duties solely and exclusively in the best interests of the institution.
  - **Obedience.** Fiduciaries have a duty to remain faithful to the goals of the institution, and to ensure that the long-term pool is being managed in accordance with applicable laws and regulations.

- Best practices call for meaningful onboarding programs for new board members (and refresher training for long-serving members) that include an explanation of fiduciary duties and the potential for personal liability in the event of a breach of fiduciary duty.[1]

- It is also recommended that information about an institution's state UPMIFA statute be included in member orientation programs.

[1] AGB Board of Directors' Statement on the Fiduciary Duties of Governing Board Members. (2015) Association of Governing Boards of Universities and Colleges.

Getting the Right People

- **Preserve institutional memory**: Balance of new members and long serving members critical to success. Correlation of average tenure of committee member and time horizon of the group. If you have a long serving member who everyone respects, keep them engaged.

- **Welcome new ideas**: Recruiting of the right new members is important. No bullies allowed. Diversity of all types is important: major, careers, socioeconomic groups, race and gender.

- **Communicate expectations**: Attendance, being prepared, working together respectfully.

- **Be clear on the roles**. Fiduciary oversight is critical. Ensure everyone is aware of responsibilities.

- **Onboarding is critical to success**.

- **Leadership**: Choose the Chairs of the committees carefully. They must be the best people.

[1] AGB Board of Directors' Statement on the Fiduciary Duties of Governing Board Members. (2015) Association of Governing Boards of Universities and Colleges.

Attribute Grid Can Aid Committee Structuring

Personality Attributes / Skills	Required	Great to Have	Not Needed	Never Allow
Love of Institution	All			
Asks big picture questions	At least one			
Reluctant to speak up even when they disagree				X
Speaks over others and demands their proposed action be taken				X
Willingness to listen to others' opinions, especially when different from theirs	All			
Commitment to do required work of committee	All			
Tenure on Committee >10 years to provide institutional memory	At least one			
Tenure on Committee <3 years to promote new ideas	At least one			
CIO Experience		At least one		
Attorney		At least one		
CEO / Senior Business Leader		At least one		
General Money Management Executive			X	
Alternative Investment Experience		At least one		
Diversity by gender, ethnicity, full scholarship kids / full pay kids		At least one of each		

Optimizing the selection of investment committee members is a crucial task.

This grid of attributes and skills can help identify individuals for inclusion on a committee.

Best Practices for New Committee Member Onboarding

- The committee Chair should provide new member onboarding before the first meeting.
- Long-serving committee members should also be provided the opportunity to attend these sessions as a "refresher."
- Onboarding programs should include: an explanation of fiduciary duties, including the potential for personal liability in the event of a breach of fiduciary duty; a discussion of the institution's mission, vision, and strategic plan; an explanation of relevant policies such as conflict of interest and confidentiality; and a review of expectations as to active participation.
- Written materials provided to new members for onboarding should include:
  - The current investment policy statement, with a focus on the official roles and responsibilities of the board, committee, CIO, and advisor.
  - Investment committee reports and minutes from the past five years.
  - The past three or four executive summaries provided to the board.
  - An overview of the institution's financials.
  - Any other significant events in the institution's history or plans for the future.

Included as an Appendix is a suggested reading list for new committee members that would like to deepen their understanding of governance and investment-related matters.

Source: Kraus, N. W., Glaviano, V., Yoder, J.A. (2022). Endowment Management for Higher Education. Association of Governing Boards of Universities and College.

Best Practices for Committee Self-Assessments

The committee should regularly assess, through self-assessment and review of conduct, its effectiveness in adhering to its duties. Some topics for self-evaluation and related questions include:

- ***Mission awareness***. Does the committee have a clearly articulated and shared understanding of the endowment's investment objectives and constraints?
- ***Governance structure***. Does the committee have a clear understanding of its roles and responsibilities? Are they appropriate? Does the committee spend most of its time on the most important issues? Is there an optimal number of members?
- ***Decision-making process***. Has the committee made wise and timely decisions? In the long term, this can be determined by comparing the endowment's investment performance to appropriate benchmarks. What does the committee do well? What has gone wrong? How could the process be improved?
- ***Attitudes and biases***. Does the committee have any biases that are impacting its decision-making? Does it carefully examine the reports, analyses, and recommendations it receives?
- ***Controls***. Has the committee established clear financial, risk-management, and other controls to ensure the fulfillment of its fiduciary responsibilities?

Feedback on committee meeting effectiveness does not need to be "held back" and provided only during formal self-assessments. A chair may also consider having committee members take turns to share observations about the effectiveness of the meeting on a regular basis, thereby providing constant feedback.

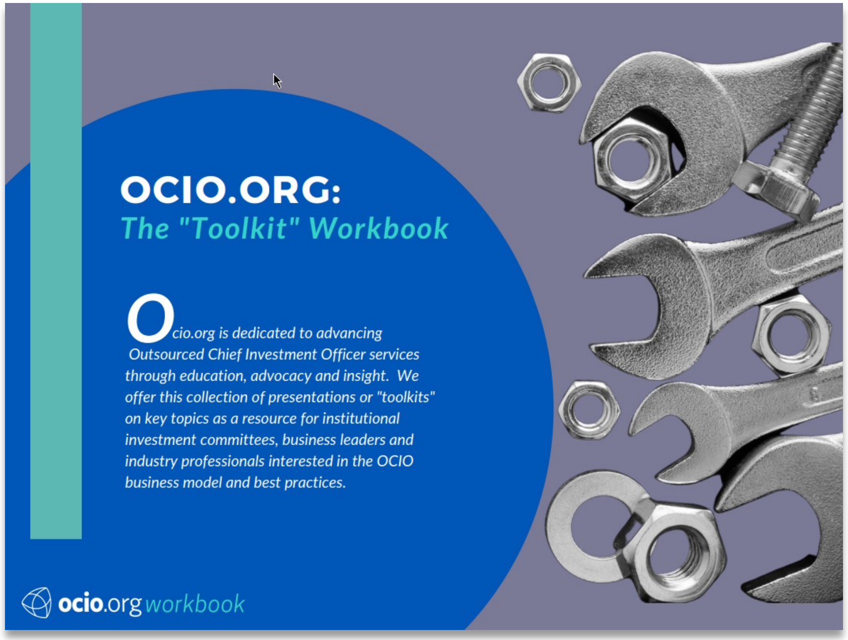
Q & A

Appendix

OCIO.org an Educational Website Designed by Strategic
Dedicated to Advancing OCIO Services through Education, Advocacy, and Insight

Unique “toolkit” graphics on key topics as a resource for institutional investment committees, business leaders and industry professionals interested in the OCIO business model and best practices.

“Deep Dive” governance educational module presentations designed to clarify critical OCIO concepts.



Click on images to download PDF.

. If you are interested in learning more, please email us at ocio@strategicgroup.com. We would be happy to schedule a time to present one or more of the full Deep Dive modules to your Investment Committee or Board.

Suggested Reading and Resources for Investment Committees

Books

- Wellmann Kraus, Nicole, Glaviano, Valentina, and Yoder Jay A. *Endowment Management for Higher Education, 2nd Edition*. Washington, D.C., Association for Governing Boards of Universities and Colleges, 2022.
- Wellmann Kraus, Nicole, Glaviano, Valentina, and Yoder Jay A. *Endowment Management for Foundations and Nonprofits*. Washington, D.C., Association for Governing Boards of Universities and Colleges, 2022.
- Ellis, Charles D. *Investment Policy: How to Win the Loser's Game, 2nd Edition*. Burr Ridge, IL: Irwin Professional Publishing, 1992.
- Ellis, Charles D. *Winning the Loser's Game, 8th Edition: Timeless Strategies for Successful Investing*. New York, NY: McGraw-Hill Education, 2021.
- Swensen, David F. *Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment*. New York, NY: Free Press, 2009.

Papers, Articles, and Other Resources

- Best Governance Practices in Delegation and Consultant Selection for Long-Term Funds. Cos Cob, CT: Greenwich Roundtable, 2016.
- Cabot, Walter M. "The All-Important Relationship Between the Board and Its Investment Committee"
- CFA Institute: This organization publishes several excellent publications, including a guide to writing an investment policy. See cfa.org.
- Ellis, Charles D. "Best Practice Investment Committees." Journal of Portfolio Management, Winter 2011, Vol. 37, No. 2, Institutional Investor Journals, New York, NY (pp. 139-147).
- NACUBO Study of Endowments: Yearly reports are available for purchase at nacubo.org.
- Yale Investments Office. The Yale Endowment. Yearly reports are available at investments.yale.edu.
- AGB Blog Posts by Strategic Investment Group including Investment Committee Succession Planning and Optimizing the Selection of IC Members
- Strategic Investment Group's www.**ocio.org**. This educational website helps existing and potential clients of OCIO to understand and maximize the benefits of an OCIO relationship.
- OCIO.org Toolkit Workbook a collection of toolkits on key topics as a resource for institutional investment committees, business leaders, and industry professionals interested in the OCIO business model and best practices.

Strategic Investment Group®

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Thank You

We greatly value your attendance and participation.

You will receive by email a recording of this webinar.

We kindly request that you share any feedback, and please feel free to contact AGB should you have follow-up questions.

Waverly Huston, Programs Coordinator
Webinars@AGB.org

Thank You!

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