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### ***What Ted's Thinking***

#### **The Definition of Poor Governance**

“You can’t have investment success with a bad governance structure.”  
- Karl Scheer

The headline in Institutional Investor reads [“Everyone Was Shocked”: Investment Committee Members Resign After Hartford HealthCare Fires Staff, Hires Morgan Stanley.](#)

A friend of mine and past guest on Capital Allocators is (sorry, was) a member of that Investment Committee. The headline rings true. The Board canned a highly respected and high-performing CIO, David Holmgren, and his entire investment team without as much as a peep to the team, its knowledgeable investment committee, or even the IC Chair.

Did that just happen?

Governance is the most frequent topic that arises when I give fireside chats. It even came up last week at the annual meeting of consultant Marquette Associates. It is the topic whose gravity most surprised me when I kicked off the podcast five years ago, and it is the topic so screaming for knowledge transfer that I wrote a chapter in [Capital Allocators](#) with a framework to get it right.

And yet, I can only surmise that somehow a Board comprised of doctors and healthcare professionals ignored its successful investment team and committee and handed \$4.3 billion over to Morgan Stanley because, maybe, someone on the Board had a friend, and well...

Just when you think you’ve seen it all, the dictionary/wiki definition of “Poor Governance” just added a new headline. It’s atrocious.

Good governance is far easier to describe than implement, but apparently ridiculous governance still happens. For the next naïve Board, I offer a Cliff's Notes version of Chapter 6 in *Capital Allocators*. I hope it helps one reader avoid the kind of mistake that hurts beneficiaries for years to come:

- **Roles and Responsibilities**

Define how decision-making works. Who is responsible for what in the investment process.

- **Investment Committee**

1. Composition: 4-6 knowledgeable members with cognitive diversity
2. Conduct: Expectations around preparation and in-room demeanor
3. Communication: Frequency and form of interaction between the committee and the team

- **Incentives**

Align compensation structure of the team with the goals of the institution

In my thinking about governance, I only considered the interaction between an investment committee and investment team. If I had a chance to address the Hartford HealthCare Board, I would have added one admonishment: when you have a good thing going, stay out of the way!