

Crisis Conversation Guide

Managing Investment Risk for the Long-Term

FCLTGLOBAL has developed this guide as an extension of the *Risk Conversation Guide* published in *Balancing Act: Managing Risk Across Multiple Time Horizons*.

Questions are **Yes/No** or **multiple-choice** to simplify use in an emergency circumstance. In the event that trustee directors uncover concerns in crisis oversight sessions with risk staff, please refer to the fuller Risk Conversation Guide to probe further about those concerns and to remediate as necessary.

OBJECTIVE AND STRATEGY-SETTING

1. Has the crisis at any point affected our:
 - Ability to fulfill our purpose?
 - Strategic advantages or disadvantages?
2. Have our responsibilities to the fund sponsor or beneficiaries changed:
 - Temporarily during the crisis?
 - Permanently because of the crisis?
3. Is this type of crisis a scenario in which we planned to reconsider our:
 - Key metrics of success?
 - Ultimate time horizon?
 - Interim evaluation periods?
 - Investment beliefs?
 - Parameters of Risk Appetite Statement?
4. Do any changes to our metrics, time horizon, evaluation period, investment beliefs, and/or risk appetite statement have ramifications for the suitability of our...?
 - Reference portfolio?
 - Asset allocation targets and ranges?
5. Is our asset allocation, as of right now, consistent with our long-term expected return at a sufficient level of confidence?

DECISION MANAGEMENT

1. Thinking of our pre-crisis rebalancing policy, have we:
 - Adhered to it?
 - Amended it?
 - Suspended it altogether?
2. Are we using any low-risk, emergency, set-aside account now to meet spending needs?
3. Has volatility produced by this crisis taken our fund valuation outside of the interim performance or risk boundaries that we preselected or that are implied by our expected return, confidence interval, time horizon, and value-at-risk specifications?

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4. Have we conducted any unanticipated sales of investments on the secondary market (e.g. private-market or other locked-up or otherwise held-to-maturity assets)?
5. Are there opportunities for us to be compensated for taking acceptable risks right now?
6. Do we have accountability metrics for ad-hoc decisions or departures from policy or established practice because of the crisis?

RISK ANTICIPATION

1. Are there ways in which this crisis could disrupt us?
2. Does this crisis reflect any scenario from our past planning or exercising efforts?
3. Are we using crisis-specific scenario planning now to support...?
 - Trustee directors in making their governance decisions?
 - Investment staff in managing the fund through this crisis?
4. Do we expect this crisis to affect our non-investment inflows (e.g., contributions, tax receipts) or outflows (e.g., charitable contributions, stabilization requirement)?

RISK AND PERFORMANCE MEASUREMENT

1. Are we framing our performance relative to the long-term goal in our performance reports during the crisis?
2. Are we providing actual variance, Sharpe Ratio, or Information Ratio data, as opposed to annualizing statistics from monthly data, in our risk reports during the crisis?
3. Does this experience with drawdown imply that our expected return, confidence interval, time horizon, and value-at-risk specifications are internally consistent?
4. Are we maintaining our commitment to manage through the short-term risks that we chose to take to earn our long-term expected return?

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ORGANIZATION

1. Despite the crisis, have we maintained our:
 - Investment policies or processes?
 - Performance evaluation and incentive targets?
2. Has staff turnover during the crisis affected our capacity or diversity in any areas?
3. During the crisis, has there been a shift in responsibilities or duties of...?
 - Trustee directors?
 - Executives?
 - Portfolio managers?
 - External managers?

BLIND SPOTS

1. What keeps you up at night right now?
2. What topics did we miss in this discussion?