



# Who Owns the Investment Decision? A Trustee Perspective

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# Role of Trustees and Employer in Decision Making in Respect of:

- Investments
- Funding of Shortfalls



# Statutory Position

## Investment Policy

- Trustees should decide
- Desirable to take advice of actuary and investment advisers
- Employer should be consulted:
  - If trust deed provides
  - Good practice anyway
- IAPF guidelines are good checks



# Statutory Position (Cont'd)

## Funding Shortfall

- Trustees and employers must sign off
- Actuary must sign off
- Inform scheme members; statutory need if benefits reduced

# Normal Make Up of Trustee Board in D.B. Scheme



- **Appointed by Company**
- **Usually based on:**
  - 3/4 company nominees
  - 2/3 member/union nominees
- **Company Nominees** : usually ‘informed’ staff with HR, Finance expertise. Recent trend of at least one pensions/investment expert



# Normal Make Up of Trustee Board in D.B. Scheme (cont'd)

- **Member Nominees** : usually build up pensions knowledge over a period
- **Focus / Busy** : Trustees have traditionally been busy people whose trustee roles is an 'add-on' and therefore with limited time available for pensions issues



# This Worked in Good Times

- **All going well**: limited input from Trustees
- Decisions on investments mainly left to advisors / investment managers
- Key element of Trustees role was comparing performance to benchmark



# This Worked in Good Times

## (cont'd)

- Trustees focus was on investment managers relative performance together with consideration of all kinds of 'new style' managers
- Companies contented: contribution kept to affordable levels
- Trustees contented:
  - Good returns
  - Good / improving benefits



# Consequence of Recent Events



- **Trustees stunned** by suddenness and cumulative

negative effects of:

- Negative investment returns
- Increased liabilities, driven mainly by unprecedented increases in mortality assumptions and continuing low discount rates

- **Companies ability** to contribute at new increase rates became unsustainable. FRS disclosure

# Consequence of Recent Events (cont'd)



- **Members** and members reps became **edgy**
- **Leading to increased focus on:**
  - **Investment policies** : strategic reviews, with advisors
  - **Shortfalls** : how to bridge the shortfall gaps



# Case Study: Coillte Teoranta (D.B. Scheme)

## 1. Actuarial Valuation 31/12/2008

- Significant shortfall in fund
- Resulting contribution rate unsustainable
  - solution needed

2. Trustees increased focus on investment policy – away from investment manager selection to focus on types of investment

Sharing – increased attention to co-operation / information sharing between Trustees and Company



# Exercise One: Bridging the Gap

**Team: A team was formed, at initiative of the trustees comprising, Trustee representatives, Actuary and Company (Finance and HR)**



# Exercise One: Bridging the Gap (cont'd)

## **Terms of Reference from Trustee Board to its Representatives**

1. The pension entitlement of existing members should be preserved, if possible
2. There should be no discrimination between different types of members
3. Attempt, if possible, to bridge the long term actuarial funding gap (not only the MFS gap)
4. The company, as a responsible sponsor of the scheme, should not be put under unreasonable financial/commercial strain by trustee demands/timing



# Work of Gap Bridging Team

1. **Tightening pensions control / administration with particular focus on:**
  - ERS provisions and costs and funding
  - Transferability / added years rules / costs
  - Pensionability of special increases
2. **Agreeing framework for company negotiating the closing off of the D.B. Scheme to new entrants**



# Work of Gap Bridging Team

## (Cont'd)

- 3. Agreeing an outline plan to bridge the gap and taking time to present and explain in detail to:**
  - Company management and Board: affordability emphasis
  - Staff / Unions: fairness / sharing emphasis
  - Pensions Board: workability / employers covenant
  - Legal Advisors: proposals legal; trustees compliant



# The Plan to Bridge the Gap

**Formal agreement with company Board, majority of unions and staff. Actuaries and legal advisors supportive and Pensions Board informal support got – awaiting formal approval.**

**Details of the planned solutions are:**





# The Plan to Bridge the Gap (Cont'd)

	Units
<b><u>Solutions</u></b>	
1. Company to continue 25% contribution rate of which 19% is to meet future liabilities	15
2. Company to contribute an annual extra sum for next 12 years	22
3. Increased staff contribution	17
4. Containing pensionable pay and pensions to assumed inflation over 5 years	15
5. Transfer of non cash assets to scheme	31
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Total Shortfall	100
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# Reasons Why Accepted

## 1. Unions / Staff

- Main interest was protecting pensions
- Company seen to 'step up to mark' – staff willing to do likewise
- Actuaries / Trustees accepted as impartial by staff

## 2. Company

- % contribution was emotive issue
- varied proposal de-emphasised % and perpetual nature of solution
- Staff seen as willing to share burden



# Reasons Why Accepted (Cont'd)

## **3. Pensions Board**

- Company covenant was major issue
- Legal / Actuarial support important
- Staff / Company sharing / goodwill appreciated

**Note :** Meet Pensions Board early

Get their informal acceptance of  
outline plan



# Exercise Two: Investments – Increased Focus

Trustees used their investment advisors, investment managers and actuaries to get a deeper understanding of key investment parameters

## 1. Characteristics of Equities (reward seeking) and Bonds (liability matching)

- Return v risk – best mix to optimise
- Liability matching v contribution rates
- Timing of transition to reduce risk (a strong company covenant gives latitude)



# Exercise Two: Investments

## – Increased Focus (Cont'd)

### 2. Bond Mix

- Long v Short v Cash
- Nominal v Index Linked
- AA v AAA

Any short term planning opportunity

### 3. Equity Mix

- Large cap v Small cap
- Euro v world
- Emerging markets
  - Direct
  - Indirect exposure



# Exercise Two: Investments – Increased Focus (Cont'd)

## 4. Other Investment Attributes

- Property / Forestry
- Infrastructure
- Commodities

**Note:** Evidence of quality of promoters input is essential

**Build up in basis knowledge with view to be better able to determine / monitor strategy**



# Inclusiveness: Support

The Trustees have increased their focus on investment strategy, decisions and monitoring, but yet:

1. **Detailed** investment decisions and stock selection are left with **investment managers.**



# Inclusiveness: Support (Cont'd)

2. The **company is brought closer** into loop:  
Company Group Executive Team to be directly briefed every three months on:
- Investment parameters
  - Any changes to parameters
  - Returns in past three months
  - Company input welcomed / encouraged





# Inclusiveness: Support (Cont'd)

3. **Staff / Unions briefed** in a more regular/standard way
4. **Trustee Board** will **meet more regularly** and more frequently with more attention to investment issues.



# Conclusion

## **Bridging the Gap: Trustee Focus**

Determine the main concerns of company, staff and Pensions Board.

List and explore all possibilities in a spirit of co-operation and openness.

Ensure you have trust of all parties.

Takes time; start early: fully involve the Actuary  
: get legal clearance.



# Conclusion (cont'd)

## **Investment Decisions: Trustees Focus**

Deeper knowledge of basis parameters but leave details to investment experts.

Involve company in main decisions as they pick up the tab in a D.B. Scheme.

Ensure company is well briefed so that they can make meaningful input.



# THANK YOU

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