

# Bridging the Investment Knowledge Gap



What trustees need to know



# Why is investment difficult?

- (Ab)Users of funds
- Knowledge
  - Principles
  - Facts
- The field where ‘risk’ means opportunity
  - measurement; liability management or volatility reduction?; is anyone asking “what can go wrong here?”
- Biases and Mistakes
  - you will be inclined towards: over-attention to recent events; overconfidence; loss aversion; anchoring to known numbers; seeing issues through the framework in which they are presented



# Why is it harder than it should be?

- Investment providers

- too technical; may not fit objectives; self-interest; incredible claims

- Governance structures

- Slow decisions, incomplete decisions, investment strategies often not fully implemented; ignore dynamic nature of your investment problems

- Lines of communication

- Trustees to investment professionals; investment professionals to trustees; among trustees; with members



# Trustees

- Not experts
- Wise investors
- Responsible for setting investment policy and assessing performance

“Although trustees do not need to be investment experts, they must have a solid grasp of basic investment principles in order to exercise good judgement in their investment decisions.” *CFA Institute Research Foundation*



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# What trustees need to do

- Train on investment principles
  - And stay trained
- Understand your scheme's mission
- Design review into the investment process
  - Forces you to state your objectives explicitly and measurably: everyone does a better job
- Access investment expertise
  - On your board; on your investment committee; through your staff; through independent assistance; through your consultant

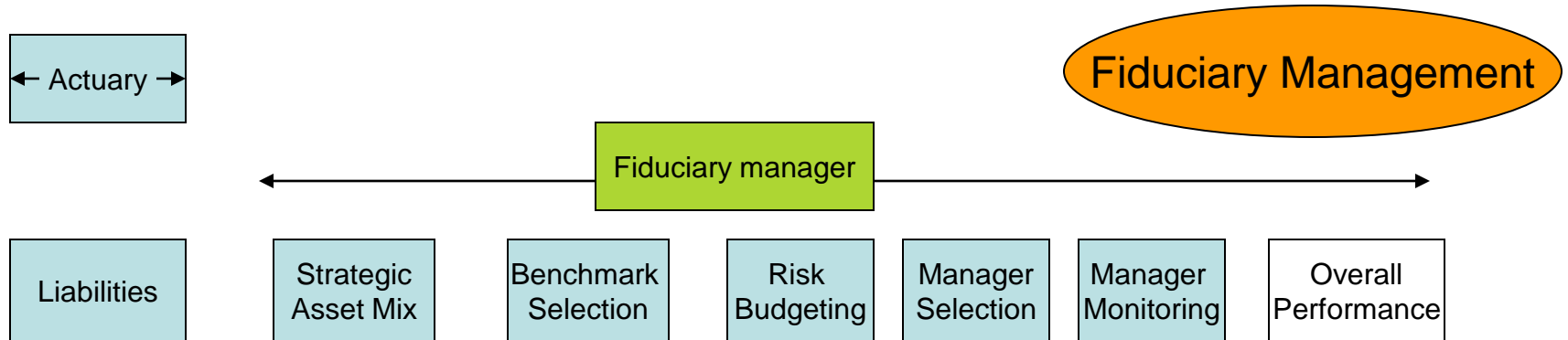
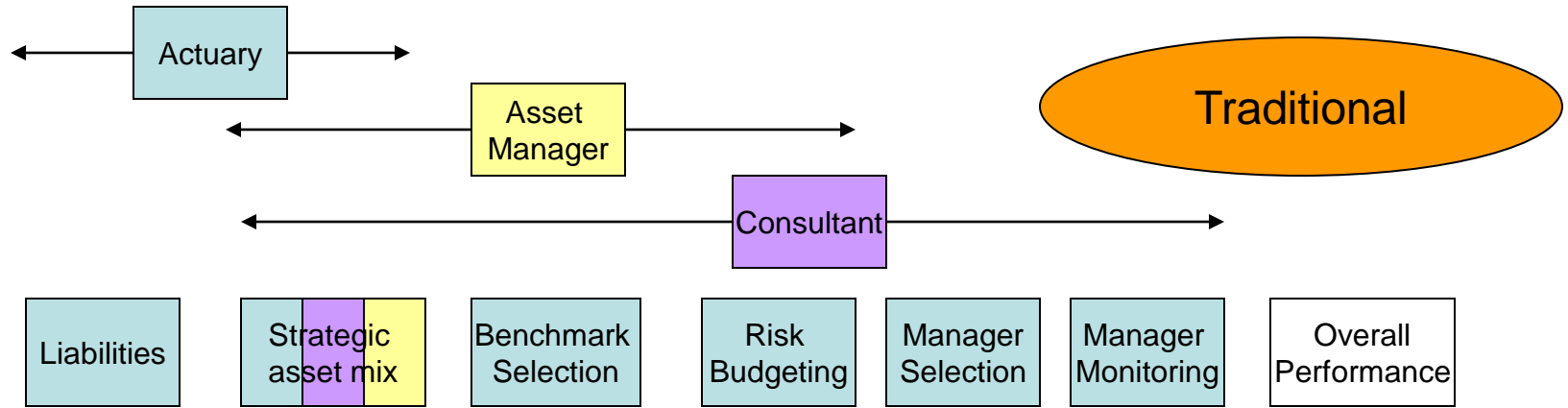


# What trustees need to know

<b>Achieve</b>	<b>...so that...</b>
Enough understanding of what constitutes an asset class...	...trustees know how to classify and use them to plan portfolios
Enough appreciation of common investor failings and of behavioural finance...	...trustees know how to structure investment decision making to avoid as many common errors as possible
Enough understanding of valuation principles	...trustees know what investment professionals mean when they claim that an asset class or investment is cheap or dear
Enough understanding of portfolio volatility	...trustees know how diversification works and when it does not.
Enough appreciation of other risks	...trustees know how to protect the fund from all of them
(Defined benefit) Enough understanding of the interaction between investment policy, surpluses/deficits and funding proposals	...trustees can evaluate their investment options when their fund is out of balance
Enough familiarity with the roles of investment managers and the products they use, and their costs	...trustees understand and can evaluate investment products and solutions that are presented to them.



# Governance structures- delegating investment expertise





# Fiduciary management

- Objectives and policy set by trustees, investment function performed by fiduciary manager
- Degrees of delegation – implemented consulting
- Combines with DB de-risking
- Trustees still need investment knowledge and understanding
- Need access to expertise for review



# Communication

- Why do IT developers always take longer than plan to complete a programme?
- Why is hard to keep a building project on time and within cost?



# Bridging the gap

- Require investment professionals to explain what they provide and do
- Consider very carefully how to set and express policy and objectives – CFA Primer
- Consider how to run trustee meetings for best practice
- Members, especially DC, need investment knowledge
- Ensure you have enough knowledge