

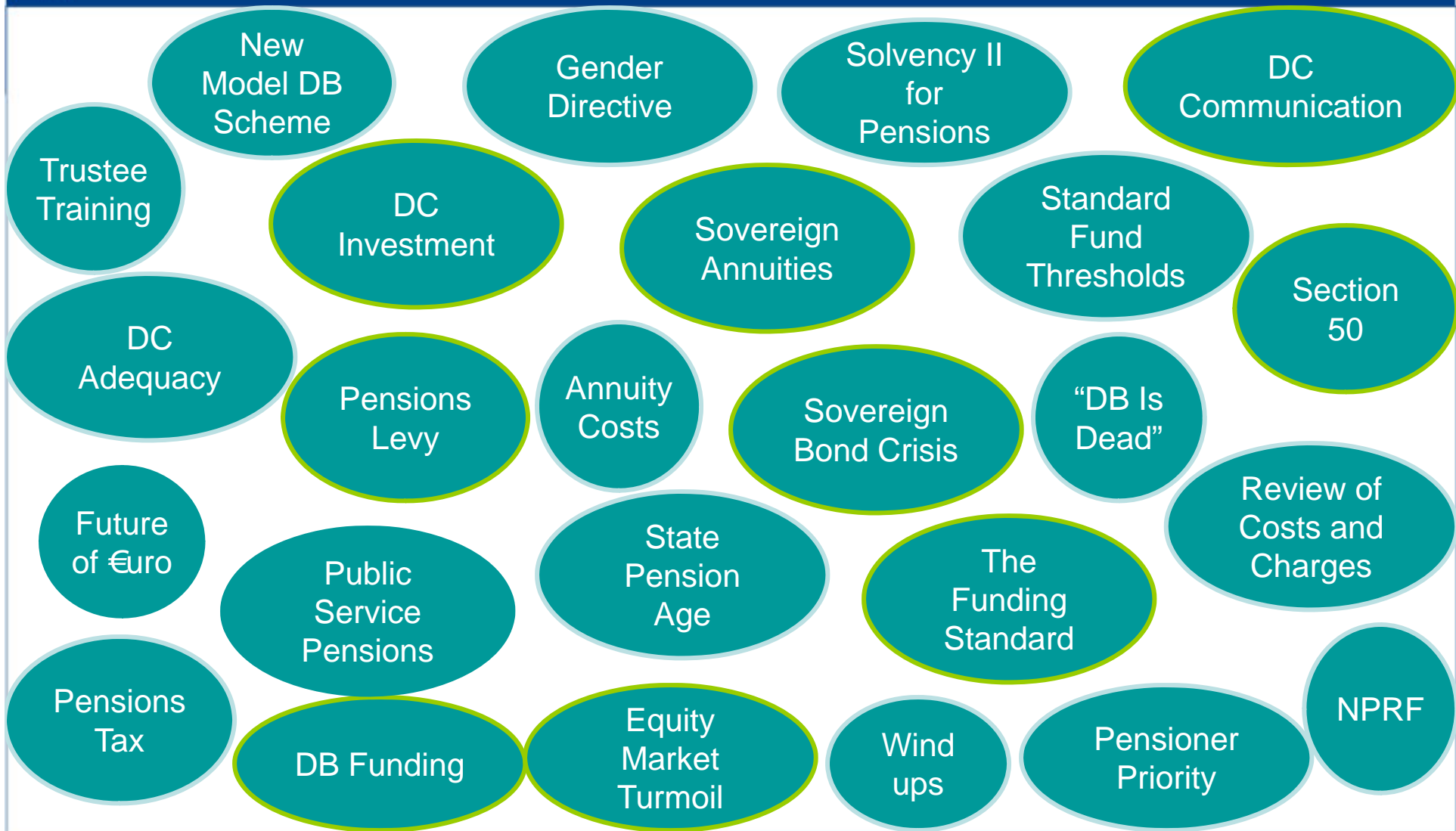
Power, Control, Influence



James Meenan, JNM Research



iapf





iapf

“All animals are equal, but some animals are more equal than others.” - George Orwell, Animal Farm

But all trustees are equally responsible!

The potential of any group is the sum of its parts. If individuals do not feel equipped to participate while retaining their individuality:

- Is the group functioning to its full potential?
- Can individual or collective obligations be met?



iapf

INVESTMENT GOVERNMENT MATRIX

SPONSOR	TRUSTEES
ACTUARIES / ADMINISTRATORS	INVESTMENT MANAGERS / CONSULTANTS

OF THE ABOVE:

- Who knows least about the schemes investments?
- Who has least influence on the schemes investment?
- Who is ultimately responsible for the schemes investments?
- Who is subject to the greatest sanction if investment issues arise?



iapf

Pension trustees responsibilities and obligations include:

- Prudence, diligence, care and good faith
- Monitoring and supervising where functions have been delegated
- Controlling the agenda and asking questions when they do not understand
- Ultimate responsibility for advisors they appoint

Trustees are **NOT** required to manage investments or make recommendations.



iapf

Trustees investment responsibilities and obligations apply to DB schemes

But they also equally apply to:

- **Defined contribution schemes**
- **Implemented consulting arrangements**
- **Fiduciary management arrangements**



iapf

A DISCONNECT?

- Established pension schemes have valued relationships with investment consultants and investment managers. But, there still appears to be residual difficulties for many trustees to constructively challenge and monitor investment consultants and managers
- Information is plentiful, sometimes excessive, and regular training takes place. But, all too often, these do not yield the knowledge or confidence to empower trustees to discharge their obligations as they might prefer
- These difficulties may have significant repercussions, from social or reputational to possibly financial or even legal

Moreover, they are common



iapf

“We are drowning in information but starved for knowledge.”

- John Naisbitt

Do current **reporting** and **training** structures give trustees the required:

- **Knowledge**
- **Confidence**
- **Empowerment**



iapf

“There is no sphere of human thought in which it is easier to show superficial cleverness and the appearance of superior wisdom than in discussing questions of currency and exchange”

– Winston Churchill



iapf

HOW COMFORTABLE ARE YOU THAT YOU:

- **UNDERSTAND THE INVESTMENT MANAGER MANDATE**
- **HAVE ENOUGH TIME TO PROPERLY STUDY INVESTMENT REPORTS**
- **UNDERSTAND INVESTMENT INFORMATION**
- **ARE FAMILIAR WITH YOUR PORTFOLIOS INVESTMENTS**
- **HAVE APPROPRIATE SUPPORT WHEN YOU HAVE QUESTIONS**
- **CAN MONITOR AND SUPERVISE THE INVESTMENT MANAGERS**
- **CONTROL THE AGENDA AT INVESTMENT MANAGER MEETINGS**
- **ARE ADDRESSING YOUR INVESTMENT OBJECTIVES**
- **CAN CONSTRUCTIVELY CHALLENGE THE INVESTMENT MANAGERS**
- **ARE GETTING INVESTMENT CHOICES FROM YOUR MANAGERS**
- **CAN ACCESS AN INDEPENDENT PERSPECTIVE**



iapf

As a Trustee – where would you like to be?

Overwhelmed:

- Confused, exasperated, reluctant to ask?
- Too little time – other more productive priorities?
- Like more power?
- Like more control?
- Like more influence?

TOO FREQUENT?



iapf

Or is your relationship?

Unwanted hassle:

- Problematic?
- Unproductive?
- Unpleasant?
- Wasteful?
- Litigious?

EVER WANTED THIS WHEN YOU SIGNED UP?



iapf

Or are you?

In control:

- Organised
- Knowledgeable
- Confident
- Influencing
- Delivering
- Respected

OPTIMAL?



iapf

Would trustees appoint an investment manager who didn't offer regular reports and meetings?

But if they:

- **Don't have time**
- **Don't understand**
- **Don't have confidence to ask constructive questions**

What's the difference?



iapf

Money matters are hugely:

- Individual
- Emotional

Both Trustees and members will likely have individual and specific requirements. The objective is to

FACILITATE:

- A prudent man approach
- Constructive dialogue



iapf

Monitoring and supervising where functions have been delegated:

- Who is being asked questions
- Who is asking the questions
- Is a party asking questions of itself (separate business unit)
- Is there objectivity
- Is there independence



iapf

Controlling the agenda and asking questions when they do not understand

Don't change the advisor – change the relationship:

What are the questions YOU want answered or your precise needs?

- _____
- _____
- _____
- _____
- _____

ASKING QUESTIONS = CONTROL



iapf

Empowering Trustees

Prudence, diligence, care and good faith

Investment Manager Reports detail the contents of the portfolios i.e.

- **WHAT TRUSTEES ARE RESPONSIBLE FOR**
- **WHAT TRUSTEES SHOULD INITIALLY KNOW**



iapf

Empowering Trustees

An initial approach?

A process to regularly and easily ascertain for total fund:

- **Cost, value, change**
- **Percentage allocations**



iapf

Empowering Trustees

Then cost, value, change and percentages allocated for each

Asset allocation:

- **Equities**
- **Fixed Income**
- **Alternative Investments**
- **Property**
- **Cash (no cost)**



iapf

Empowering Trustees

Cost, value, change and percentages allocated for each

Category within asset classes:

- **Equities e.g. Irish, European, UK, US etc**
- **Fixed Income e.g. Irish govt, Euro corp, high yield etc**
- **AI e.g. hedge funds, private equity, absolute return etc**
- **Property e.g. Irish, UK, European etc**
- **Cash (no cost) e.g. Euro, GBP etc**



iapf

Empowering Trustees

COST, VALUE, CHANGE

Categories	Total portfolio			Manager A			Manager B			Manager C etc		
	Cost	Value	Change	Cost	Value	Change	Cost	Value	Change	Cost	Value	Change
EQTY												
EUR												
US, etc												
FI												
GOVT												
CORP. etc												
AI												
HF												
PE, etc												



iapf

Empowering Trustees

PERCENTAGE ALLOCATIONS

Categories	Total portfolio			Manager A			Manager B			Manager C etc		
	Value	% of Class/Cat	% of Port	Value	% of Class/Cat	% of Port	Value	% of Class/Cat	% of Port	Value	% of Class/Cat	% of Port
EQTY												
EUR												
US, etc												
FI												
GOVT												
CORP. etc												
AI												
HF												
PE, etc												



iapf

Empowering Trustees

Trustees can now discuss with individual managers on an informed basis:

- **How money is invested**
- **What asset classes are making or losing money**
- **What categories within asset classes are making or losing money**
- **How much is allocated to profitable or losing investments**
- **A filter to identify potential problem areas**
- **A filter to identify success stories**



iapf

Empowering Trustees

PROGRESS?

- An initial basis for dialogue with investment advisors and managers
- An ongoing process to regularly stimulate dialogue to enable Trustees ask and learn more
- A two way interaction to enhance relationship

Participation and inclusion



iapf

Empowering Trustees

Results

Enhanced clarity, understanding, knowledge, but also:

- Filter of what you understand
- Identifying what you don't understand
- List of questions Trustees want answered
- Agenda for constructive meeting with advisors



iapf

Empowering Trustees

Thereafter, Trustees can be comfortable to broaden the dialogue to include dialogue on other matters eg:

- **Benchmarks**
- **Standard deviation**
- **Peak to trough**
- **Contribution**
- **Attribution**
- **Sharpe ratio**



iapf

Empowering Trustees

Marie Collins: IAPF Investment Conference 2011

Advocated Trustees:

- Apply common sense
- Have an enquiring mind
- Don't invest if they don't understand



iapf

Challenging

Some basic questions:

- What has performed i.e. which asset classes, regions, strategies, funds irrespective of benchmark
- Were we there
- What will perform
- Will we be there
- Have we the right benchmarks



iapf

Conclusions:

- **Seek individual help if you wish**
- **Reticence won't work**
- **Can never ask the question 'Why' often enough**
- **Insist on your own agenda**
- **Standardise investment report templates?**



iapf

JNM RESEARCH: CHECKLIST FOR INVESTORS

- Managers
- Number of managers
- Domestic managers
- International managers
- Specialist managers
- Managers ownership
- Personal relationships/contacts
- Credit rating
- Guarantor
- Regulator
- Asset segregation
- Insurance
- Costs
- Advisory
- Discretionary
- Investment objectives/strategies
- Risk
- Investment manager outlook
- Asset allocation
- Geographical allocation
- Quality allocation
- Hedging strategies
- Currency
- Performance
- Reporting
- Liquidity
- Leverage
- Documentation

“Care and diligence bring luck”
– Thomas Fuller



iapf



E: james@jnmresearch.com



T: + 353 (0)1 687 1027



M: + 353 (0)86 257 2646