New Investment Frameworks: Evolving Governance

- dutiful investment in a changing world

Ronan Smith

Verus Advisory Limited

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Your speaker

Ronan Smith is a founder and Principal of Verus Advisory Limited, which provides independent oversight of Outsourced Investing in Ireland as well as governance advice in relation to pension fund investment.

He has also provided independent consulting on investment management to all types of institutional investor for the past seven years.

He is a former director of Bank of Ireland Asset Management (now SSgA Ireland) where he served for 22 years.

Topics this evening

A historical glance at investment governance in Ireland

The current state of evolution:

Outsourced Investing

Governance issues :

- Good investment governance?
- Issues with choice of governance model

A historical glance at investment governance models

- From insurance to return-seeking investment
- ‘Balanced’ portfolios for most of the scheme assets
- Beginning of competitive performance measurement. Focus on returns
- Crucial investment role for consultants: independent oversight, measurement, leading to strategic design and manager selection
- Professional Investment Management- Single Balanced Manager: 1960s to 1980s

From Single Balanced Manager to Specialist Manager

Single Balanced Manager Model

Specialist Manager Approach

Actuary

Consultant

Investment Manager

Split Manager Approach

Larger schemes: 1980s -1990s

Second Phase: Asset Allocation---Specialist Manager Approach

- Asset allocation under guidance of consultants
- ALM and other techniques introduced to consider risk
- Narrow mandates for managers : growth of specialisation
- Specialisation unwieldy and expensive for smaller funds
- **Consultant still the gatekeeper** for manager selection, review and oversight

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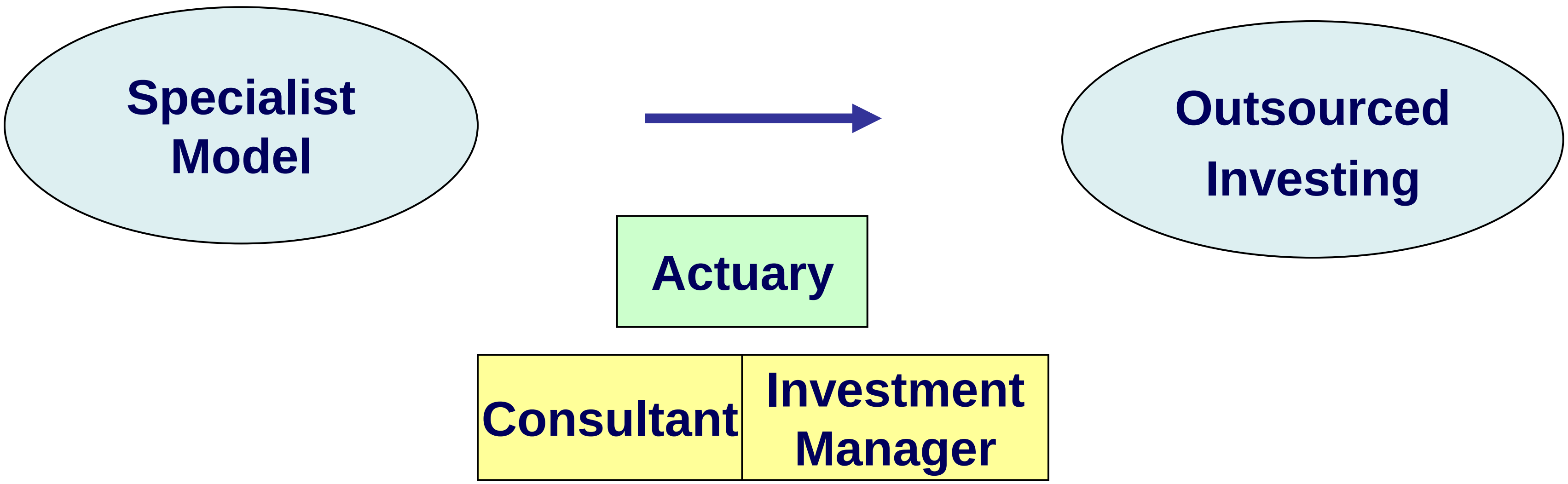
From Specialist Manager to Outsourced Investing



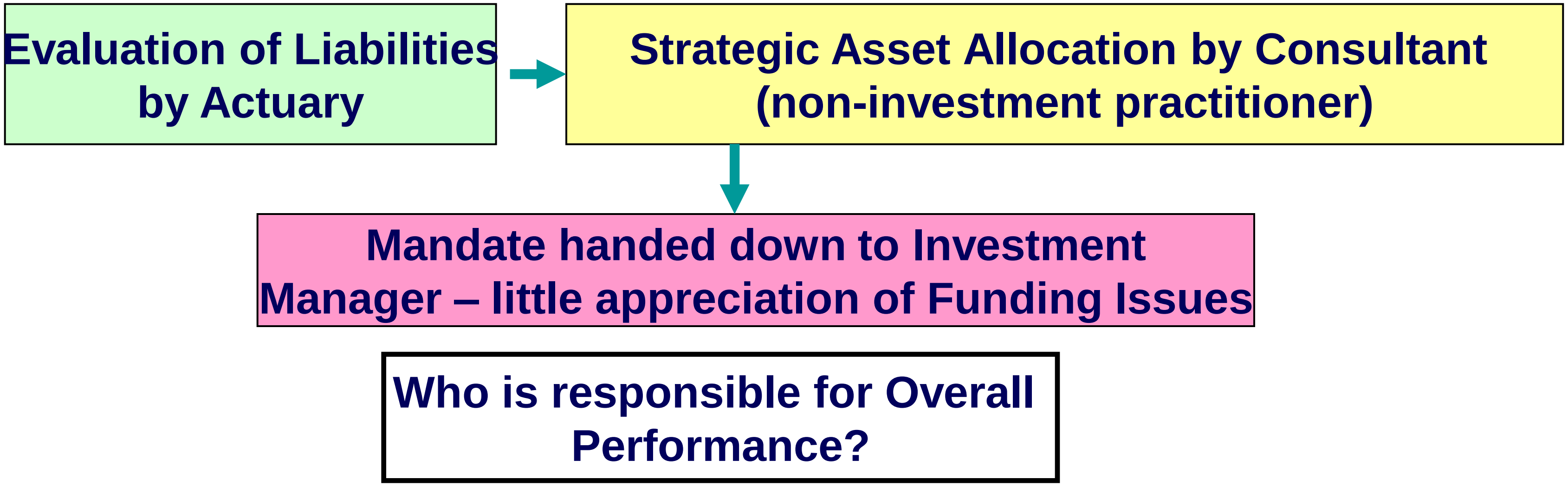
Mid to Larger schemes: 2000s – 2010s

Outsourced Investing: what is it and why is it growing?

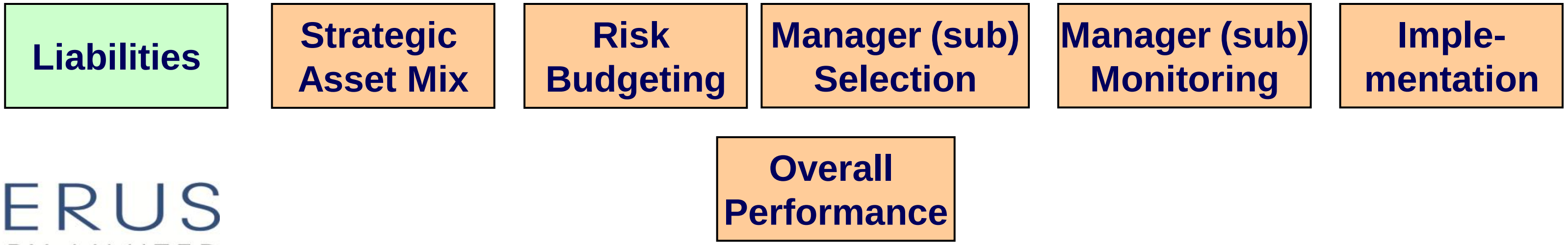
- Process removed from trustee / investment committee
- Manager-of-managers or similar investment structure
- Integrated asset management and strategic advice
- Can deliver: -access to best managers
  -cost savings
  -trustee focus and time saving
- Various forms, including **Implemented Consulting, Fiduciary Management** and **Delegated Consulting**

Why Trustees are inclined towards OI

- **Specialist Manager Approach**



- **Outsourced / Fiduciary Management Approach**



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Outsourced Investing- origins

- In-house solutions in Netherlands and UK in 1980s
- Successful service – **Fiduciary Management** – then sold to third party pension funds
- Consultants responded: consulting relationships become investment management services
- Investment managers responded: integrated consulting and strategy services, investment platforms

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OI is the current phase of governance evolution

- Growing proportion of funds – over €5bn assets under management in Ireland*; Almost 100 pension funds*
- 9 providers in Ireland*; A variety of structures used*
- DB – dovetails with funding plans
- DC – state-of-art white label solutions suited to a single outsourced provider

**Source: Verus OI Providers Review, 2014*

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Changing trustee attitudes

Survey from Aberdeen Asset Managers, 2012

Summary of best practice

- Improve skills
- Set clear mandates, investment principles and benchmarks
- Focus on strategy
- Seek expert advice: have knowledge and confidence to understand and challenge
- Obtain independent opinions, other than your investment advisers or managers
- Do not do anything you do not understand
- Develop direct relationships with asset managers
- Stay close to the sponsor
- Communicate clearly with members
- Encourage collaboration

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How do you judge good investment governance?

Regulatory Checklist

Prudence

Accountability

Funding level (DB)

Returns

Member Satisfaction

Stakeholder Satisfaction

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Governance Objectives (Investment)

- Not the same as Investment Objectives
- Emphasis off opportunity / return (Greed)
- Focus on dutiful governance: demonstrating you have done the right thing (Fear)
- Primacy of Accountability
  - Explain and document all decisions
  - Be prepared to share them
  - Self-assessment as you go (not based on investment results)
- Accountability to Stakeholders
  - Communication is critical

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Does your investment model fit your ambition for good governance?

- How do your investment structures affect the effectiveness of your communications?

- What other factors might influence your choice of governance model – if you have a choice?

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Trustee interactions (investments)

- Your choice of investment structure will affect your interactions
- As: -individual trustees
  -a board
- With: -members
  -the sponsor
  -providers
  -state bodies

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Choice of model - factors

Scheme Circumstances	Older Models	Fiduciary (OI)
Size	Specialisation only if large	Mid and large
Sponsor relationship		Framework for addressing DB deficits; commercial access to best-in-class for DC
Decision speed	Slow	Many decisions quicker
Implementation Speed	Late	Immediate
Expertise and Advice	Rely on consultant	Smaller burden - oversight
Accountability & Communication	Complex delegation structure	Clarity

The issues that come up with OI

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In conclusion… for the trustee agenda

- Self-judgement of your governance of investments: define investment **governance** objectives before investment objectives
- Are you familiar with the choices that are available to your pension fund?
- Make a clear choice of a suitable governance model
- Outsourced Investing (OI) usually makes governance easier and more effective. It is growing strongly: is it right for your board and members?

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