



GOOD GOVERNANCE

Better Returns or Bigger Costs

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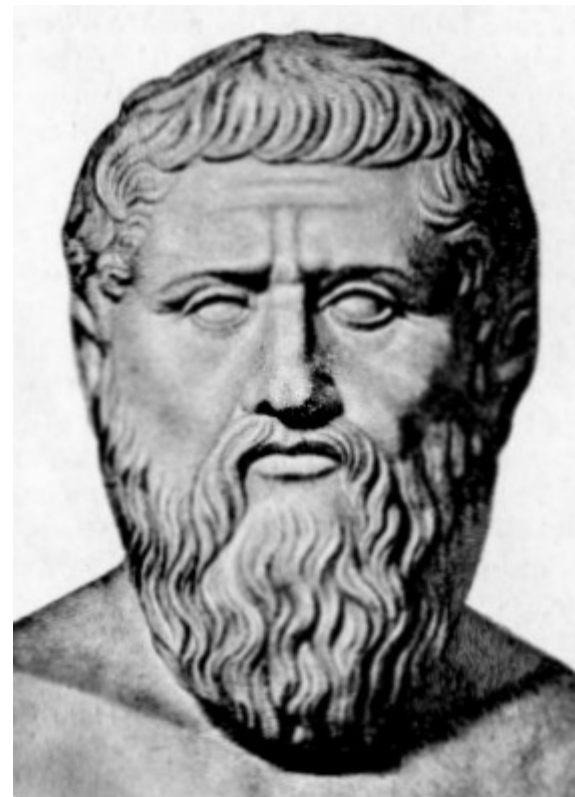
IAPF Investment Committee
Watson Wyatt





Governance

κυβερνάω
to steer





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*"I have hardly ever known a mathematician who was
capable of reason."* Plato.





Judging outcomes...

- At time zero (t_0) you have capital of 100.
- One unit of time later (t_1) you have capital of:
 - 100
 - or*
 - 198
- Which do you prefer?

"A good decision is based on knowledge and not on numbers." Plato.



...more information



- The time unit was ten minutes
- The increase in capital was achieved at a casino
- (not a strong analogy for investment)

“Better a little which is done well than a great deal imperfectly.” Plato.



Summary guidelines

1. Annual consideration
2. Seek advice
3. Comply with regulations

“There is no harm in repeating a good thing.”

Plato.



Summary guidelines DC

- 4. Appropriate options – review every 3 years
- 5. Member objectives
- 6. Communications
- 7. Trustees own strategic design but may delegate all other tasks.

“There is no harm in repeating a good thing.”

Plato.



Summary guidelines DB

- 4. Risk relative to liabilities (not peers)
- 5. Cost & covenant – consult sponsor!
- 6. Review strategy at least every 3 years
- 7. Trustees own “Risk & Return” objectives but may delegate all other tasks.



What does this mean?

- Guidelines are principle based
- Who is responsible for what?
- Advice on pension fund investment is fully regulated activity
- What would constitute compliance?



- 1. Carry out an investment strategy review at least every three years.**
 - I. Include analysis of long term objectives (for example, “self sufficiency” or target funding level on a “buy-out” or bond basis).
- 2. High level return and risk objectives should be set by the trustees;**
 - I. monitoring and implementation can be delegated to an investment committee or other such arrangement;
 - II. for complex structures including multiple asset classes and manager appointments trustee boards should ensure that a structure is in place to allow real time investment decision making in terms of changing asset allocation (within parameters permitted by the trustees’ objectives) and removing and appointing managers; a well resourced investment committee is likely to be necessary.
- 3. Annual risk review including analysis of current and alternative strategies:**
 - I. Could include Value at Risk (“VaR”) analysis of current and alternative strategies;
 - II. more frequent risk monitoring may be desired especially if a wide range of asset classes and managers are employed;



4. Managers should be monitored on an ongoing basis:

- I. trustees should monitor performance to ensure that it is line with expectations for the mandate.;
- II. Managers should also be monitored from a qualitative point of view;
- III. where multiple managers are employed the trustees or delegated sub-committee are likely to rely on expert advisers for ongoing advice in this area.

5. At least triennial review of SIPP, more frequent as required.

6. Annual review of compliance with investment regulations:

- I. the trustees should go through the attached checklist with their advisers and managers to ensure that they remain compliant.

7. Annual review of compliance with the IAPF Investment Guidelines:

- I. trustees should review their compliance with the actions set out on this page.

8. Triennial assessment of expert advisers.

9. At least one meetings per annum:

- I. possibly quarterly or more frequent meetings will be necessary to monitor active managers and complex investment structures with sufficient time set aside to cover all of the above actions.

10. Trustees should properly record their deliberations.



Out put & time frame

- **Issues for trustees, sponsors, managers, and advisers.**
- **Specific actions and activities.**
- **DB & DC**
- **6 weeks**
- **Input from industry participants**



Feedback & Questions

*“Be kind, for everyone you meet is fighting a
hard battle.”* Plato.





Feedback & Questions

"I shall assume that your silence gives consent."
Plato.

