



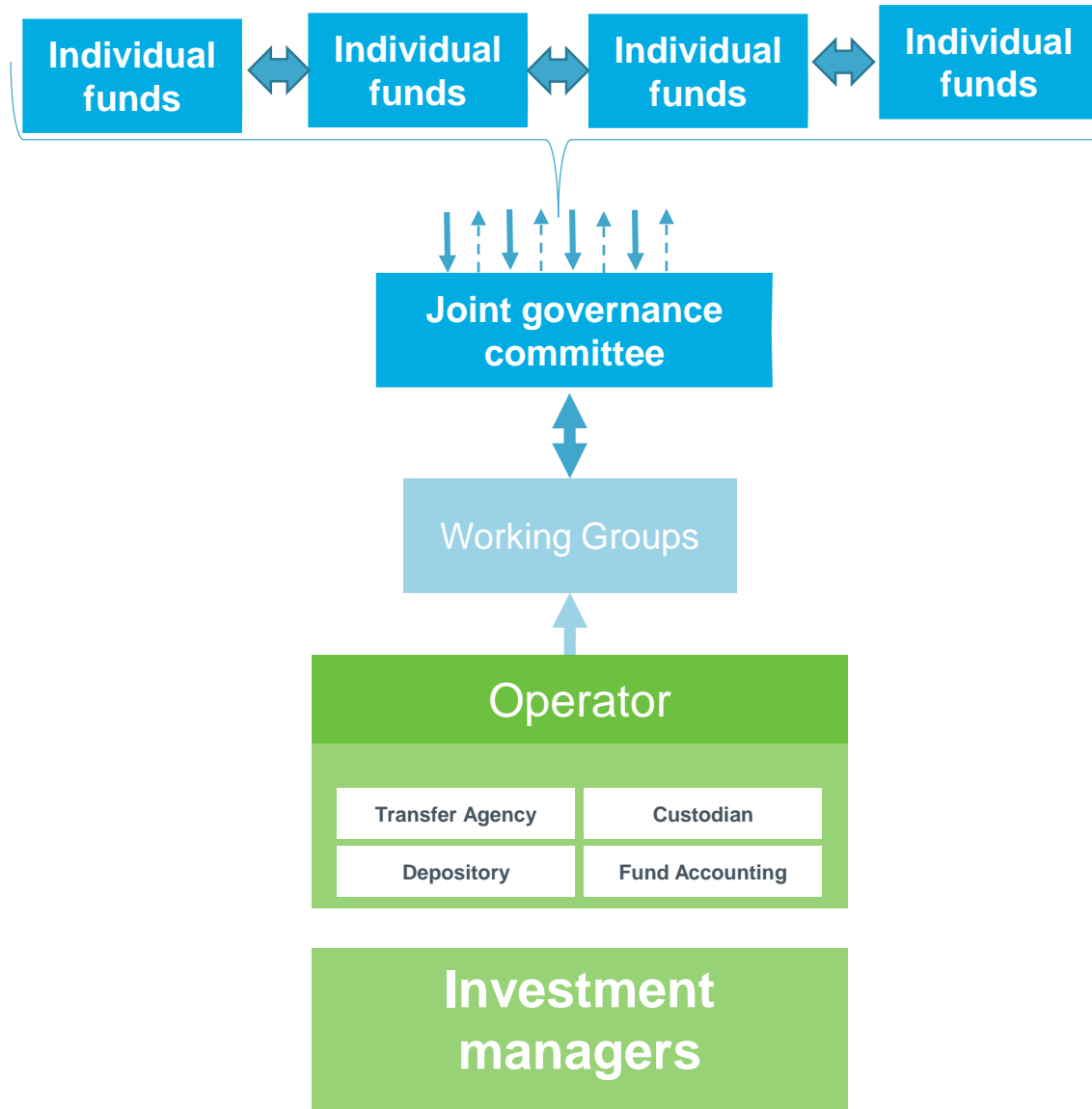
# Pool governance: helping Funds get the most from their pools

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- March 2017

# Agenda

- Background
- Governance
- Responsibilities and decisions
- Looking at the private sector

# The new world



Representative diagram.  
Not pool specific

# Impact of pooling

## Elected members



- For some – role on Joint Committees or shareholder boards
- Scrutiny of pool
- Less direct contact with managers
- Greater focus on governance and strategy

## Officers



- New relationship with pool operator
- New reporting requirements – assessment against criteria
- Potential role on pool investment committee
- Resource transferred across to pool?
- Greater working within and across pool

## Managers



- New working relationships with pools
- Greater pressure on fees
- Less direct contact with Funds
- Competition with new pools
- New routes to developing investment solutions for clients

## Consultant/advisers



- New working relationships with pools and funds – implementation and ongoing support including governance
- Strategic advice for funds - manager advice to pools/ Joint Committees or Investment Committees
- Impact of increasing collaboration within and across pools

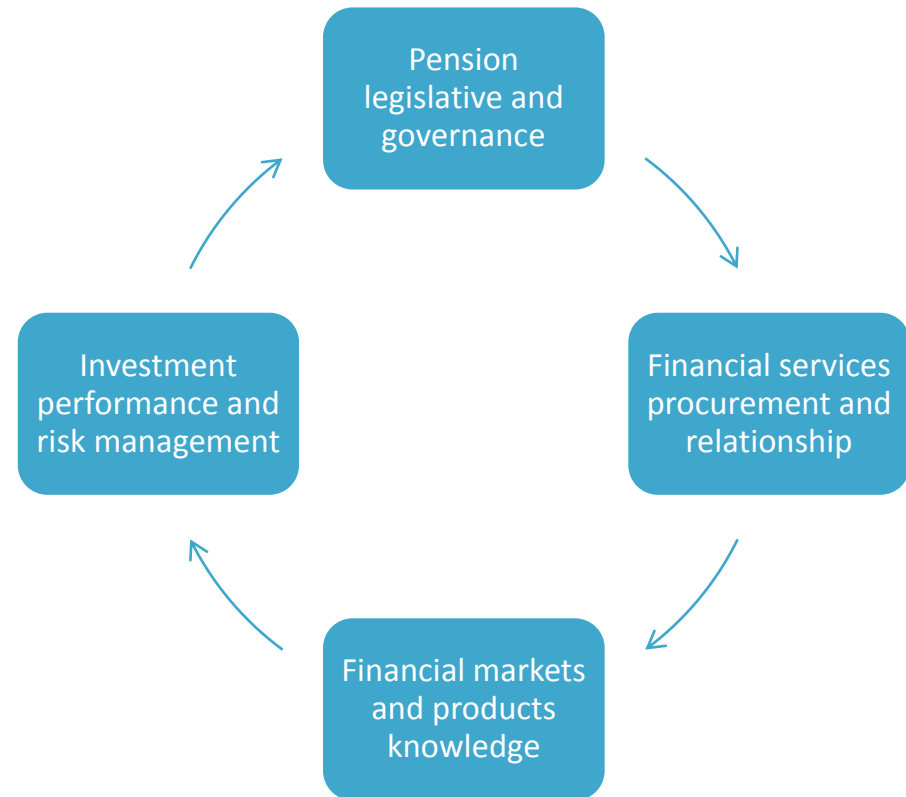
Understanding your responsibilities in the new world  
(delegated or not)

# Building on solid foundations

- Collaboration
- Regular reporting
- Cost focus
- Myners' Principles
- Pension Board
- Knowledge skills framework
- Ongoing training

# New (or increased) formal requirements

- LGPS Regulations 2016
  - approach to pooling
  - policy on voting/social, environmental and governance
- CIPFA 2016 Pooling governance principles
  - structure/regulation
  - level of influence/terms for termination
  - approach to monitoring
  - approach to pooling

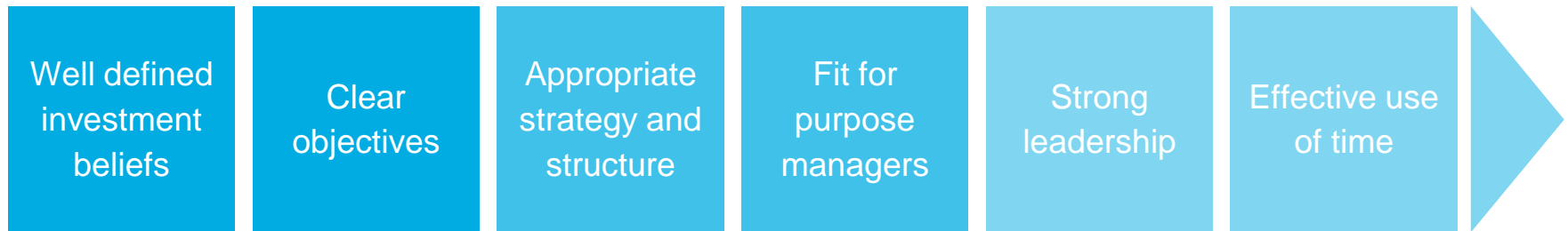


CIPFA Investment pooling governance principles  
(Diagram shows four of the six KSF sections)

**In addition to new relationships and roles**

# Key characteristics for success

## “Core attributes”



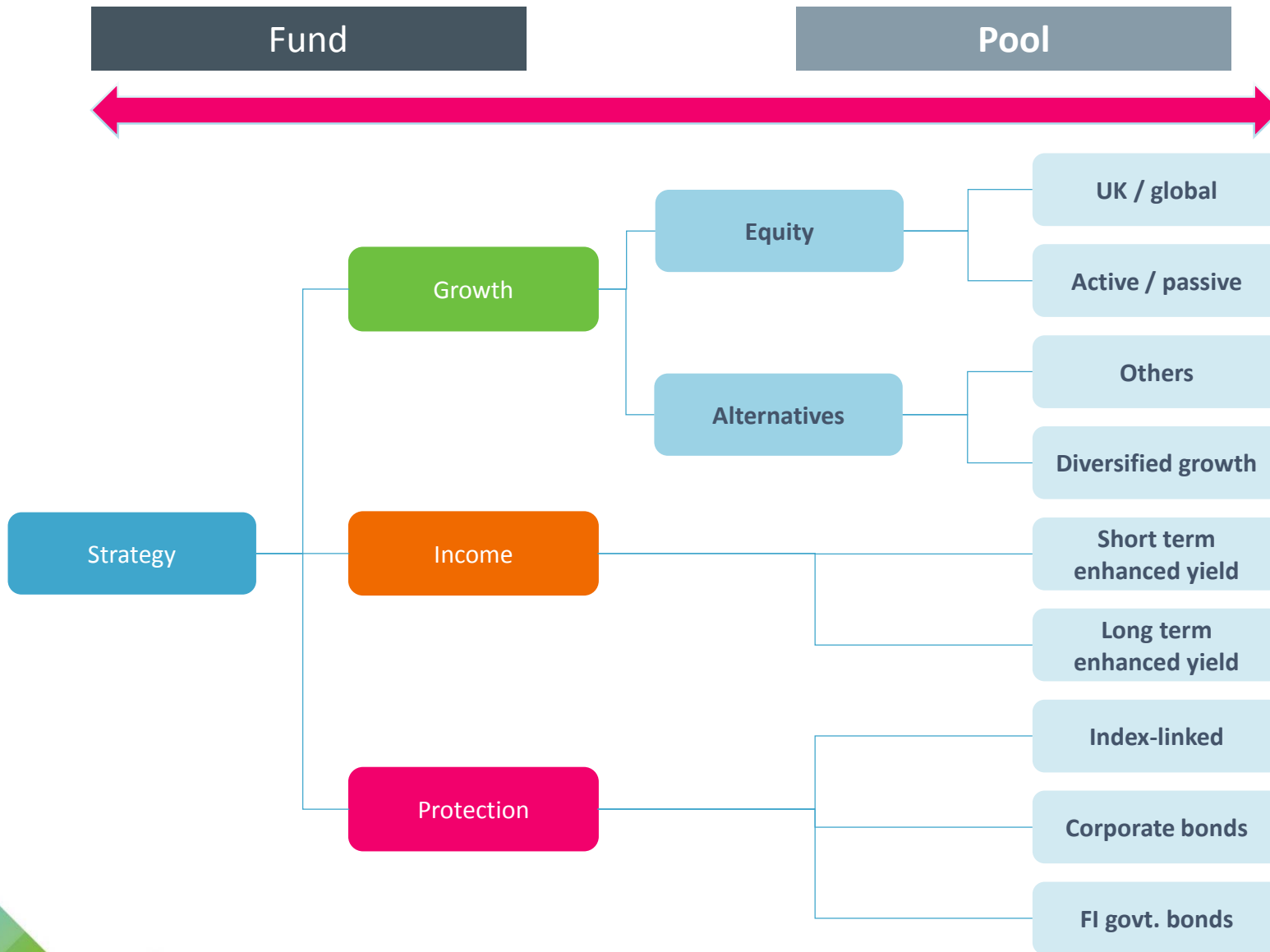
## “Exceptional attributes”



Based on source: Clark, Urwin – Best practice in investment governance for pension funds

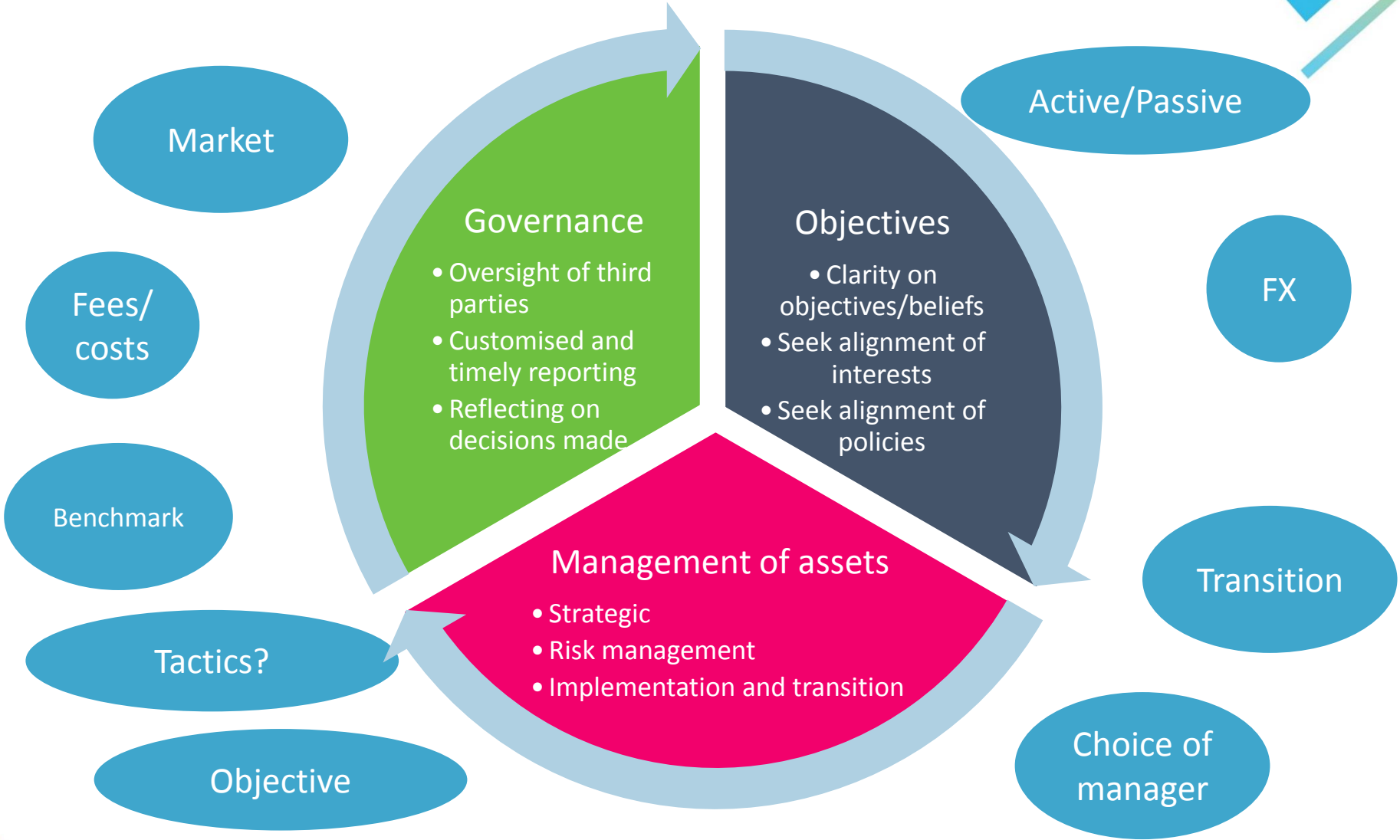
**Important that the Funds’ and their Pool’s  
views on these are aligned**

# Who makes the decisions?





# Which decisions?



**Clarity, measurement and reporting needed on the decisions made**

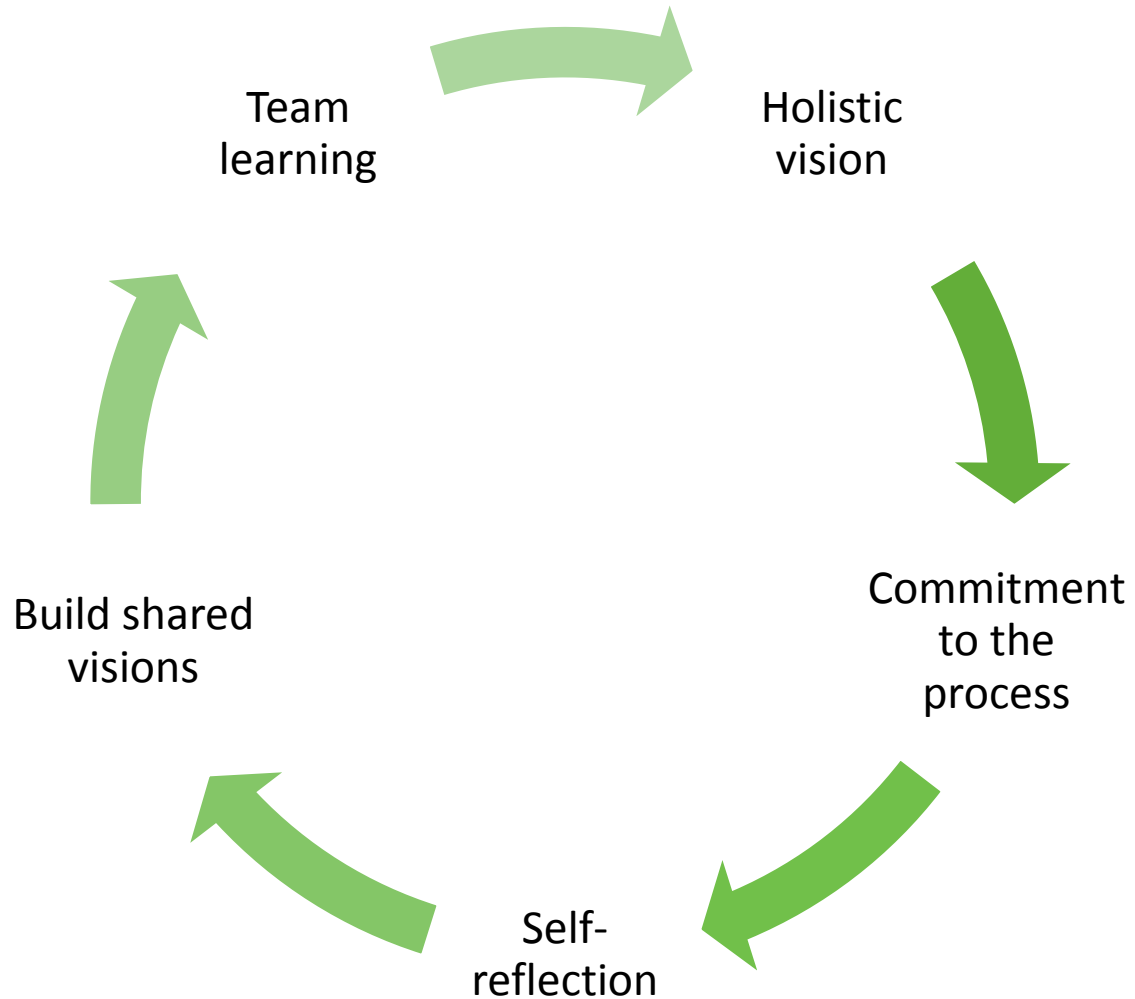
# Clarity of responsibilities

	What's involved	Who is responsible?
<b>Goals</b>	Mission, objectives etc.	
<b>Investment beliefs</b>	Development of investment philosophy consistent with goals	
<b>Governance</b>	Structures, decision making, committees,	
<b>Risk budget / AA policy</b>	Long term planning, overall level of risk, constraints and scope	
<b>Strategy / Asset allocation</b>	Growth vs matching, choice of asset classes/tactical?	
<b>Portfolio structure</b>	Diversification, number of managers, vehicles, active vs passive	
<b>Manager selection</b>	Number, type, internal vs external	
<b>Approach to transition</b>	Timing, treatment of costs	
<b>Stock selection</b>	Which stocks/pools to buy and sell	
<b>Monitoring</b>	Assessing performance, potential influences on future performance	
<b>Reporting</b>	Detailed portfolio reporting,	

# Learning organisation

*“The governance challenge here is to build alignment behind clear statements of mission-critical goals, particularly in dealing with multiple stakeholders and complex dependencies, recognising that “reform” is normally an ongoing process of accommodation and only rarely once-and-for-all instances of idealism.”*

*(G Clark 2012)*



Source: “The Fifth Discipline”



# Looking at the private sector

# A brief history of delegation

## 1980 - 1990

- Balanced management
- Very little focus on liability management issues

## 1990 - 2000

- Scheme-specific benchmarks
- Liability management limited to unleveraged bonds, typically short duration

## 2000 - 2010

- Scheme-specific benchmarks
- Liability management gradually extending to use of longer dated bonds, leveraged bond funds and derivatives
- Arguments for greater diversification grow although thesis severely tested during credit crisis
- Fiduciary management starting to develop

## 2010 +

- Scheme-specific benchmarks, liability management and diversification becoming ingrained in the mindset
- Diversified growth funds (DGFs) become prevalent, offering a one-stop-shop for funds wanting easy access to diversified alternatives. Linked with LDI, these provide an alternative to fiduciary management
- Some consulting firms convert a number of their clients to fiduciary management; growth outside consulting firms more muted

# Roles and responsibilities

Task	Trustee	Delegated CIO	Adviser
Governance framework	Responsible	Provides input	Provides input
Setting of overall goals	Responsible	Provides input	Provides input
Investment beliefs	Provides input	Responsible	Provides oversight
Strategic Asset Allocation	Provides input	Responsible	Provides oversight
Tactical Asset Allocation	No input	Responsible	Provides oversight
Manager Selection	No input	Responsible	Provides oversight
Operations/Implementation	No input	Responsible	Provides oversight
Ongoing Monitoring	Provides oversight	Provides input	Responsible
In-depth performance review	No input	Provides input	Responsible

...an effective working relationship requires proper accountability...

# How do you assess performance?

## Investment performance...

- Delineate between impact of advice vs. discretionary actions.
- Operating to a strategic asset allocation benchmark then performance assessment straightforward.
- For a liability or funding level benchmark success can only really be judged over the long term.

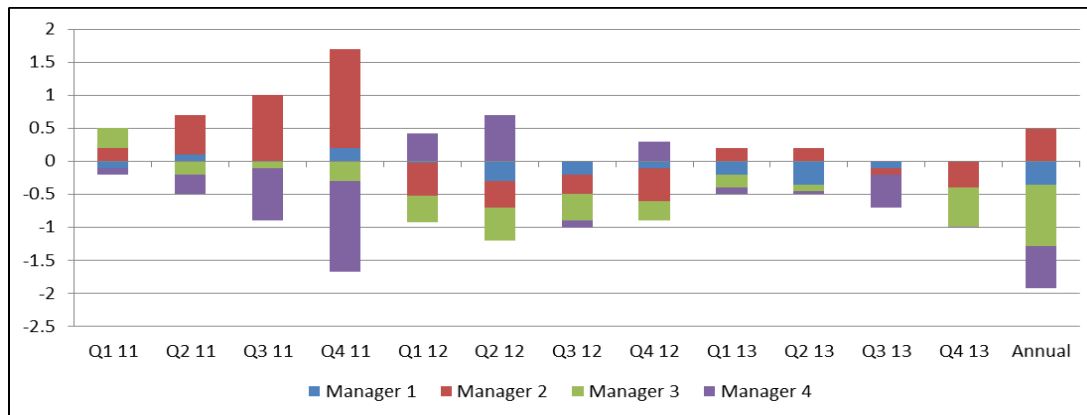
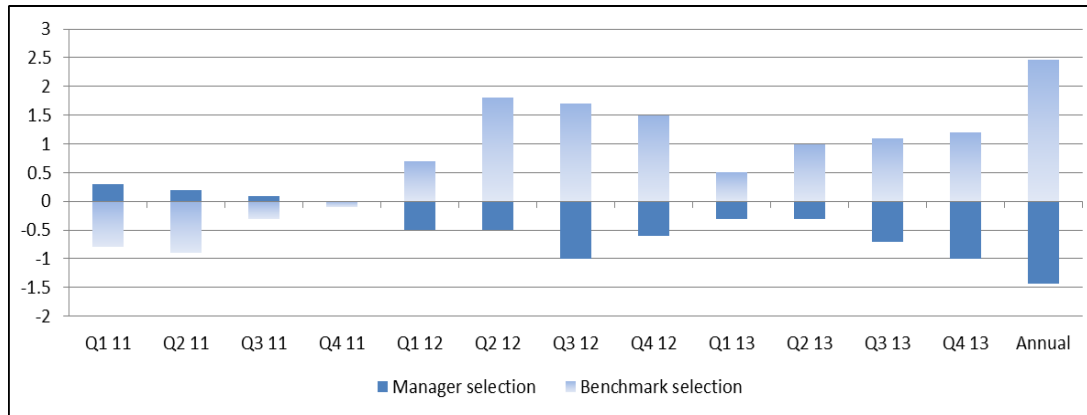
## ...and beyond

- Quality of reporting
- Operational efficiency
- Monitoring/managing custodian relationship
- Accuracy of funding level updates
- Overall service delivery
- Effective management of conflicts

Luck vs. skill

People, systems and commitment

# Luck vs. skill...



...beyond attribution analysis...

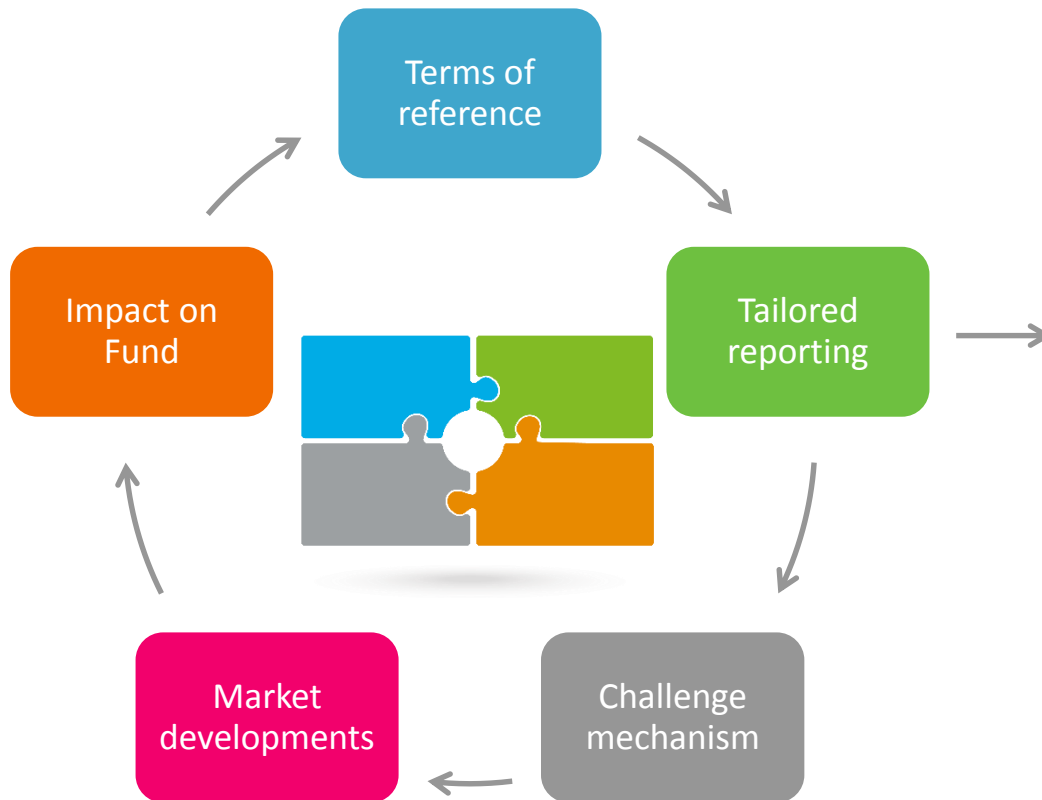


# Look beyond returns

		Portfolio management	Operational issues	Business risks
Materiality ↑	High	Multiple sources of added value	Experience	Use of discretion
		Approach to LDI	ALM capabilities	Future resourcing and scalability
	Medium	Downside risk management	Operational risk	New business growth
		Use of technology	Staff turnover	No. of clients/AUM
		Growth portfolio structure	Ease of exit	Performance track record
	Low	Look through capabilities	Conflicts	Fee structure
		Segregated, pooled, in-house	Wider service integration	Client losses

...a more complete picture of performance...

# Staying ahead of the game...



- Acting in a manner you expect
- Facilitating an evolving picture of luck vs. skill
- Dealing effectively with operational issues
- Ongoing monitoring metrics designed to keep the initial due diligence refreshed

...ask the right questions at the right time...

# Not a magic bullet

## Potential advantages

- Potential for quicker decisions (not necessarily quicker implementation)
- Forces clients to consider the key issues
- Clarifies responsibilities
- Greater diversification than typically practical with advisory model
- Depth of knowledge required on certain investment issues reduced

## Things to consider

- Committees may lose touch with investment issues
- Potential for increased complexity
- Breadth of knowledge required on certain investment issues increased
- Potential conflicts of interest that need to be managed effectively
- Fee transparency
- Level of up front transaction costs
- Assessing whether the delegated CIO is doing a good job

...greater focus on things that matter...

# Summary

Investing assets in  
accordance with the  
to Fund's strategy



Fund Pool

Receiving net of fee performance  
aligned  
with the Fund's objectives  
Reporting and engagement  
ongoing



- New relationships
- New regulations
- New roles
- **Greater focus on strategy & governance**



- Starting from a good place
- Have clarity on roles and responsibilities
- Identify/manage risks before they occur
- Monitor and reflect on lessons learnt.

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**Better outcomes: robust governance**

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# Better futures aren't down to chance

## Investment Perspectives

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# Thank you

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