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# Practical implementation of PF130

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## Good governance:

- **Achieve objectives in a transparent manner**
- **Fulfill obligations to stakeholders**
- **Manage risks**
- **Act properly (board):**
  - **Put the interests of the fund and its members above your own (“utmost good faith”)**
  - **Act within your powers in terms of the rules**
  - **Seek expert advice**
  - **Apply discretion fairly and impartially**
  - **Identify and manage conflicts of interest**
  - **Assess performance regularly**
- **Communicate effectively with stakeholders**



**PF130 requires a set of deliverables that demonstrate good governance**



## PF130

- **Code of conduct, accepted by all board members**
- **Investment policy statement**
- **Risk management policy**
- **Communication policy**
- **Statement of the results of an annual performance assessment of / by board**
- **(all available to stakeholders, confirmed in Annual Financial Statements)**



**The value lies more in the process /  
implementation than in the result**



## Topics

- **Board composition and support**
- **Board behaviour**
- **Managing risks through structure and mandates**
- **Performance assessment**



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## Board composition

## Board and Principal Officer

- **Appropriate mix of skills / ability to act independently**
  - Employer / sponsor fills gaps
  - Minimise structural conflicts of interest
- **Retain institutional memory**
  - Overlap “old” with “new”
- **Principal Officer**
  - Adequate knowledge / resources
- **Assess training needs (Principal Officer)**
- **Implement training programme**
  - Fund or employer to pay for training





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# Board behaviours



## Code of Conduct

- **Apply**
  - Put the interests of the fund and its members above your own (“utmost good faith”)
  - Act within your powers in terms of the rules
  - Seek expert advice
  - Apply discretion fairly and impartially
  - Identify and manage conflicts of interest
  - Preserve confidentiality
  - Communicate to stakeholders
  - Assess performance regularly
- **Acceptance of appointment binds trustee**



## Management of conflict of interest

- **Declaration of interest**
  - List of holdings / interests lodged with PO and chairperson
  - Declare interest in any matter at each meeting
- **Gift register (PO / chairperson)**
- **Ask permission of colleagues before accepting invitations from service providers to any training, conferences, etc**
- **Act independently of constituency**
- **Ensure that service providers disclose any interests in other services when giving advice**
- **Seek second opinions where there is any doubt**

## Practical difficulties

- **Trustees' declaration of interest**
  - **Questions 4 and 5:**
    - **Clearer language needed**
    - **Sensitivities on disclosure of other remuneration**
  - **No declaration is made of directorships or business / personal relationships with service providers or the sponsor other than as a trustee or consultant**

**Adapt to your circumstances**

## Mandate for Chair / SLA for service providers

- **Yardstick for performance assessment**
  - Good guide for chairperson mandate in PF130
  - Customise it
- **Seek expert advice when drafting SLA's for service providers**
  - Each subcommittee checks that the SLA satisfies deliverables and timeframes required
  - Use expert to ensure competitive SLA
  - External legal counsel to check contractual terms
- **Principal Officer to ensure that there are contracts and SLA's for all service providers in place**



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# Managing Risk through Structure and Mandates



## Risk management policy

- **All risks**
  - identified
  - distributed amongst subcommittees / board
  - written into mandates
- **One subcommittee / board:**
  - oversees risk management
  - manages PI cover
- **Periodic review of all risks**
  - Review complaints / media reports

**Process described in policy**

**Detail is in mandates**



## Subcommittees

- **Identify impact, probability and mitigating strategies for risks allocated to them**
  - Administration
  - Investment
  - Legal
  - Benefits (particularly disposition of death benefits)
  - Communication
  - Funding

**Overall check by board / governance committee**



## Each subcommittee

- **Identify risk mitigating strategies**
- **Draft the mandates to include these**
  - **Ensure relevant information is provided to the subcommittee**
  - **Part of risk management policy**
- **Monitor performance**
- **Take action if performance substandard**
- **Seek expert advice if risk cannot be avoided**

## Annual Risk Review

- **Risks / impact / probability / mandate / performance**
  - Each subcommittee
  - Board as a whole
- **Input to answers on questionnaire submitted to FSB on risk management**

**Important element of the assessment of the performance of the board**



**Two specific issues that have been highlighted in PF130:**

**Investment Policy**

**Communication Policy**



## PF130 requirements - investment policy

- **Identify investment advisor and custodian**
- **SRI policy and definition of SRI**
- **Insurance portfolio or segregated, and why**
- **Benchmarks for each asset class, performance in past year, tracking error**
- **Level of risk attributed to each asset class and each asset manager**
- **State whether fund exercises its ownership rights and, if so, proxy voting policy**
- **If individual choice, default portfolio (reviewed annually)**
- **May not confine investments to sponsor's products**

## **Broadly, this means**

- **What do you hope to achieve from your investments**
- **For each asset class in which you invest,**
  - **proportion in asset class,**
  - **ability of asset manager to vary proportion (risk budget)**
  - **how you select asset managers**
  - **how you measure their performance**
    - **benchmarks relate to peer performance, inflation, or indices**
    - **appropriate reporting**
- **Why you made these decisions**
- **Who has advised you**
- **(For DB funds) Have you consulted the employer?**



## You must consider

- **Type of fund (DB, DC, hybrid) and expected future cash flows**
  - special needs such as LDI
- **Investment risks to which members will be exposed**
- **Type of member and their risk appetite**
  - workers with little financial knowledge
  - affluent members with access to individual expert advice
- **Type of investment mandate**
  - pooled, segregated, multi-manager / “aggressive”, “balanced”, “conservative” or mix of these / different strategies for pensioner assets and active member assets / LDI or ROI
- **Are decisions at trustee level or member level?**
- **If at member level, default?**
- **Powers of sponsor / employer in rules**



## Practical issues

- **Do's**
  - **Be realistic**
  - **If you have limited options (eg because of small size) think what you as trustees should be doing and put that into the policy**
    - **Review performance against peers and inflation**
    - **Periodically survey the market to ensure fees are competitive**
- **Don'ts**
  - **Undertake to do anything in the policy that you are not empowered to do in terms of the rules**



## Where you own the assets

- **Custodian**
- **SRI policy (and definition)**
- **Proxy voting policy**
  - **Voting records and reasons**
- **Use of derivatives, borrowing and pledging assets, scrip lending**

**Where an insurer or collective investment scheme owns the assets, ensure that the manager has an SRI policy and proxy voting policy and ask how these are managed and disclosed**



## Communication Policy

- **What are you going to tell members and when?**
  - **What is happening on the fund (trustee report)**
    - **Rule changes, pension increases, major events, investment performance (against benchmarks)**
    - **Financial position (summary of AFS), financing issues, expenses, changes in investment strategy, remuneration of trustees (transparency of operation)**
    - **Service providers**
  - **Member benefit statements**
  - **Investment portfolio options (individual choice)**
    - **Risk / reward profiles**
  - **Dispute resolution process and contact details**
- **AGM / member committees?**

## Communication Policy contd.

- **What are you going to tell participating employers and when?**
  - **More detail on the financial side:**
    - **Contributions received and due, changes of contribution rate, membership changes, financial position of fund, member w/d benefits (g'tees), expenses, summary of AFS**
  - **SLA requirements**
- **Who is going to do all of this?**
- **When must the trustees approve material?**



## Other aspects

- **Confidentiality**
- **AGM**
  - **Work for single employer / single site**
  - **Difficulty is lack of decision making power**
  - **Otherwise look for workplace meetings / some form of representative interaction**



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# Assessment of performance



## Model in Annexure C

- Long
- Difficult to see the “wood” from the “trees”
- Few questions are open ended

**Adopt a simpler approach**



## Process

- **Individual trustee:**
  - **Monitor attendance**
  - **Monitor any breaches of the code of conduct**

**Poor attendance and breaches should be cause to dismiss the trustee - handle through chairperson**
- **Subcommittees, the board as a whole, the chairperson and the Principal Officer:**
  - **Sufficient timely information to do job?**
  - **Areas of the mandate or SLA not covered regularly?**
  - **Risks not covered?**

**This is effectively a review of the mandate of each committee and the SLA of the PO and a check that all risks are covered**

  - **Effective?**
    - **Ask views of trustees, PO, service providers**
  - **Improve?**
    - **Ask views of trustees, PO, service providers**



## Practical issues

- **Some do's:**
  - **Open-ended questions**
  - **Observable behaviours**
  - **Concentrate on the mitigating actions**  
**(Did they happen? Could they be done better?  
Are there other things that should be done?)**
  - **Independent person to collate feedback**
  
- **Some don'ts:**
  - **Get personal (Joe isn't pulling his weight)**



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**Thank you!**