



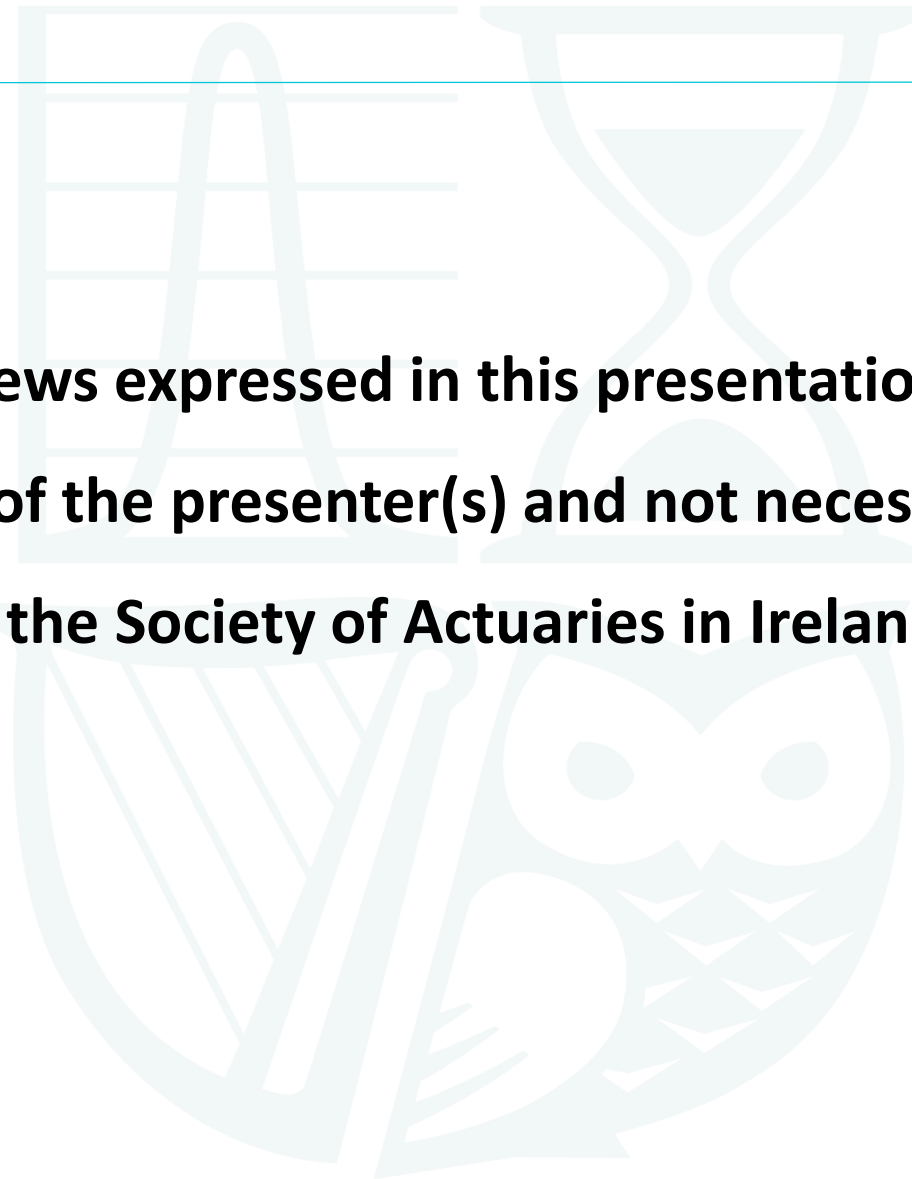
Society of Actuaries in Ireland

Investment Governance

Eamonn Liddy & Tom Armstrong

Disclaimer

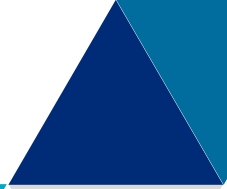
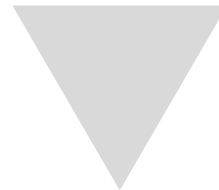
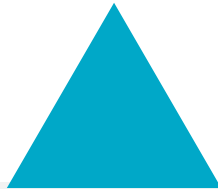
The views expressed in this presentation are those of the presenter(s) and not necessarily of the Society of Actuaries in Ireland



**EVOLUTION OF INVESTMENT
GOVERNANCE MODELS FOR
INSTITUTIONAL INVESTORS**
SOCIETY OF ACTUARIES EVENING
SEMINAR

28 MAY 2018

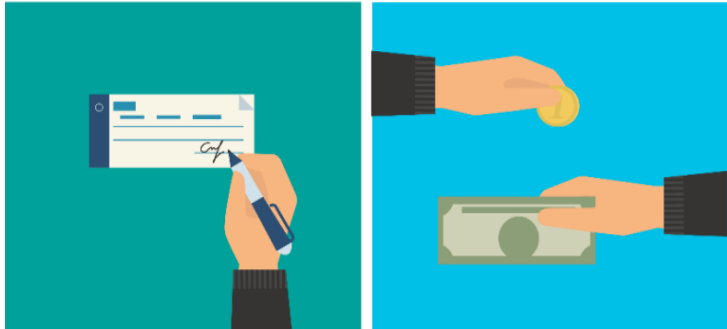
Eamonn Liddy FSAI



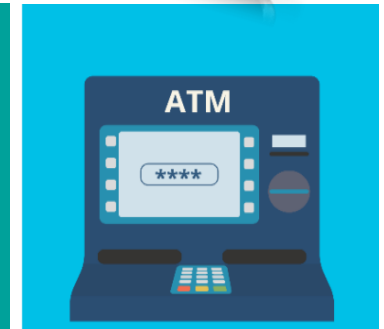
HOW TIMES HAVE CHANGED...



FASTER



SMARTER



CHEAPER



INVESTMENT GOVERNANCE

WHO DOES WHAT, AND HOW

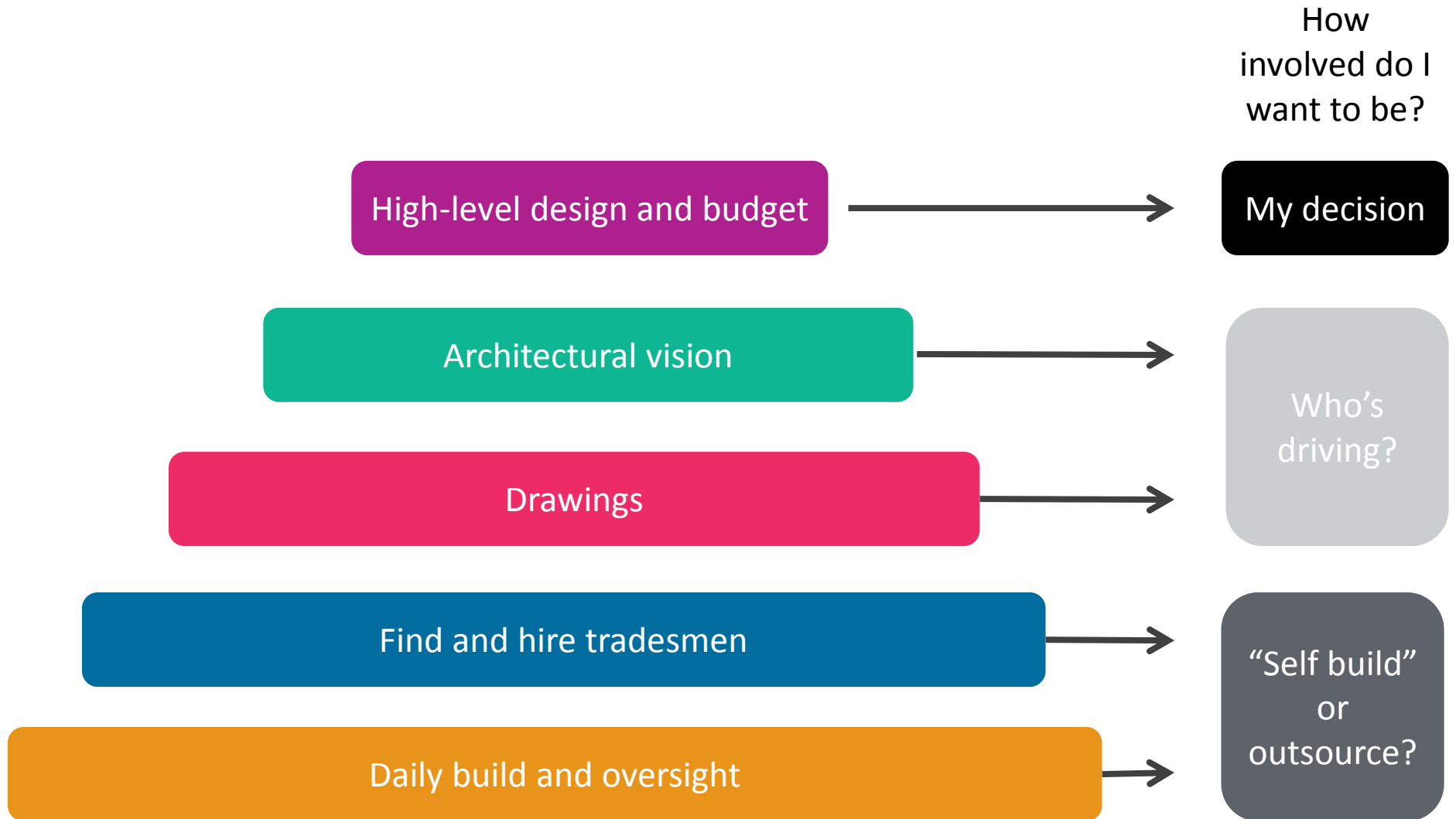
DESIGNING, IMPLEMENTING AND MONITORING AN INVESTMENT STRATEGY

INVESTMENT GOVERNANCE : WHO DOES WHAT, AND HOW

For discussion today:

- Why new approaches have emerged
- Features
- Who is using them and how
- The challenges

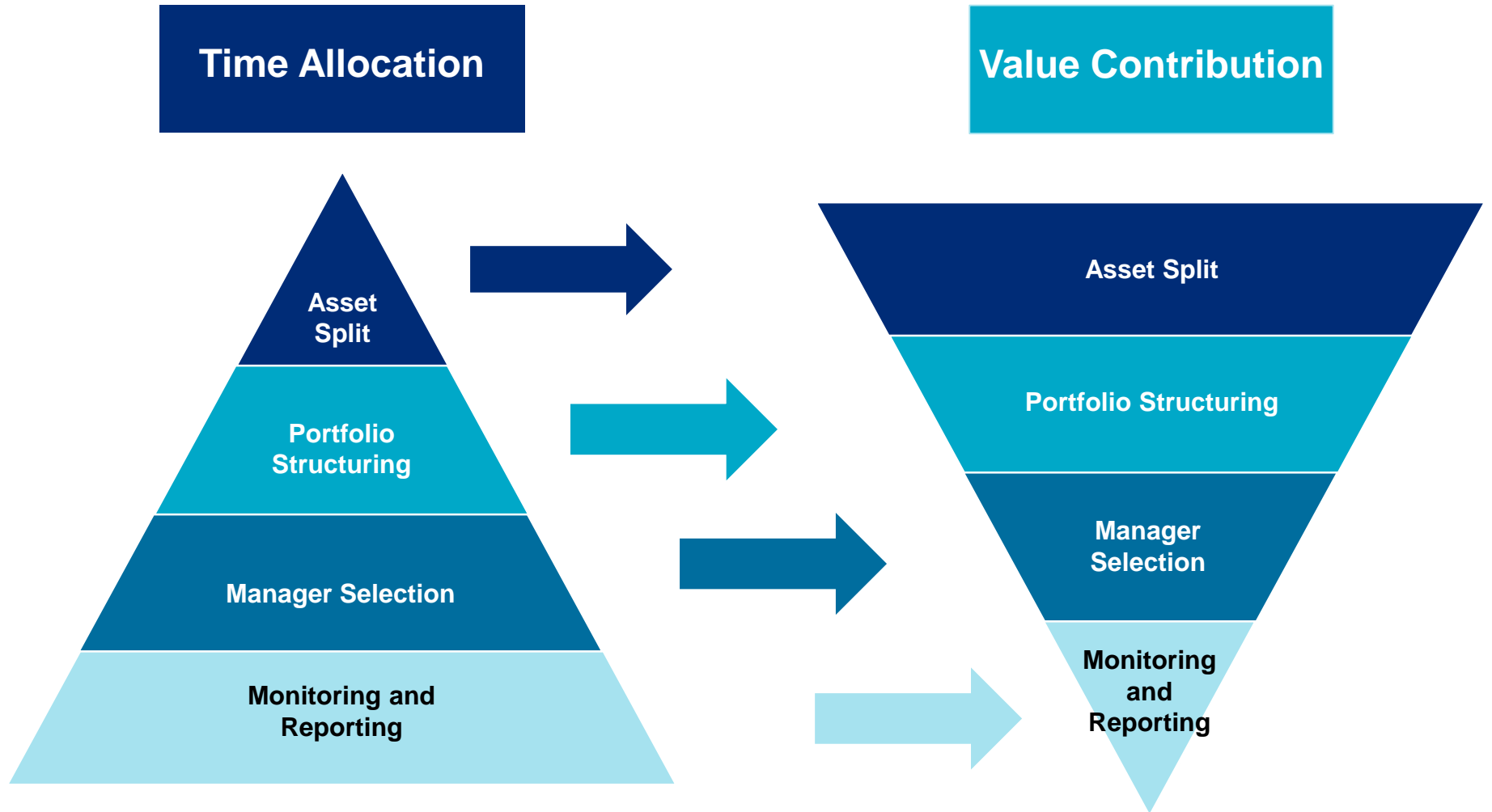
'HOUSE-BUILD' GOVERNANCE



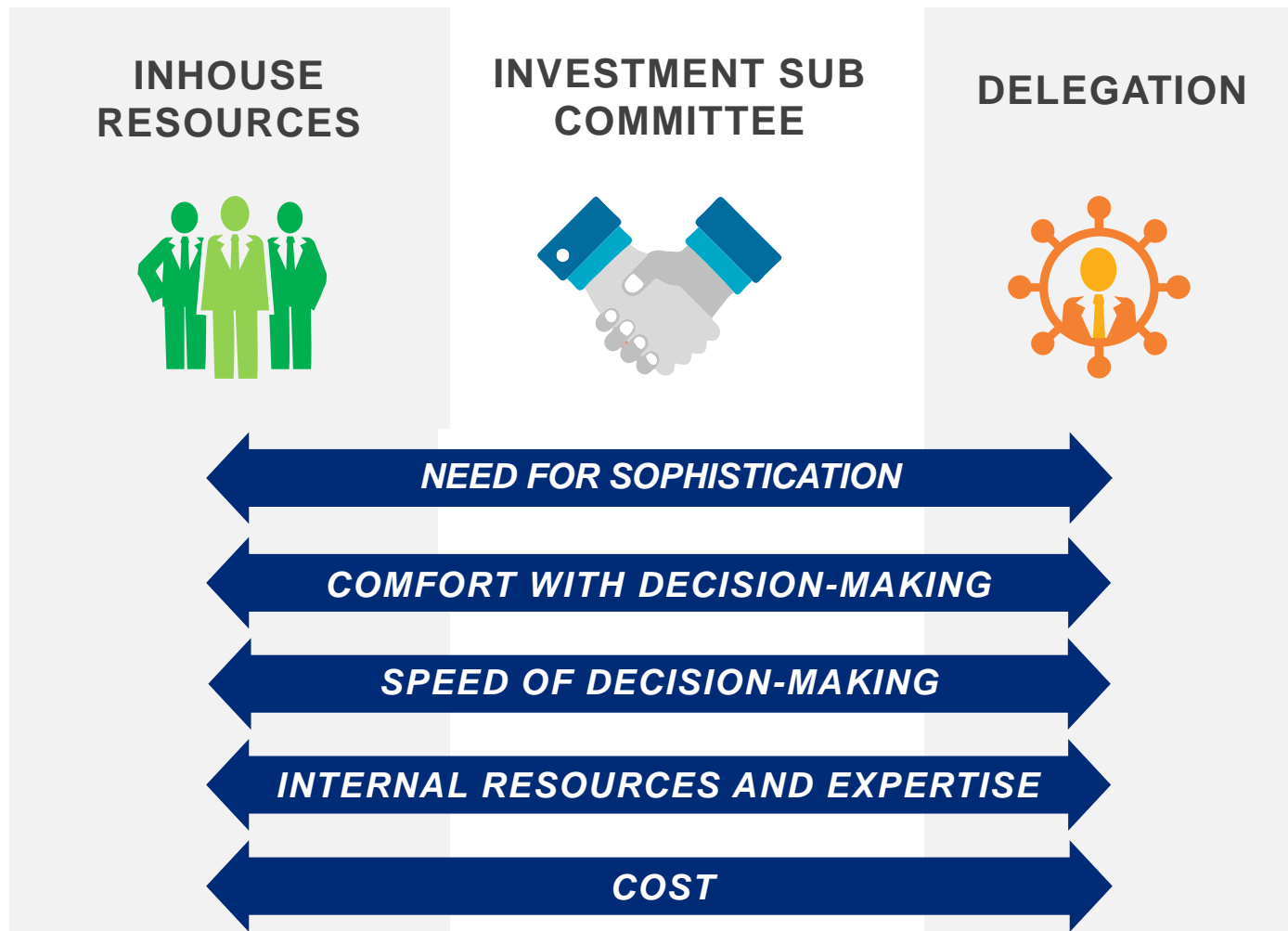
INVESTMENT GOVERNANCE



WHY NEW GOVERNANCE APPROACHES HAVE EMERGED



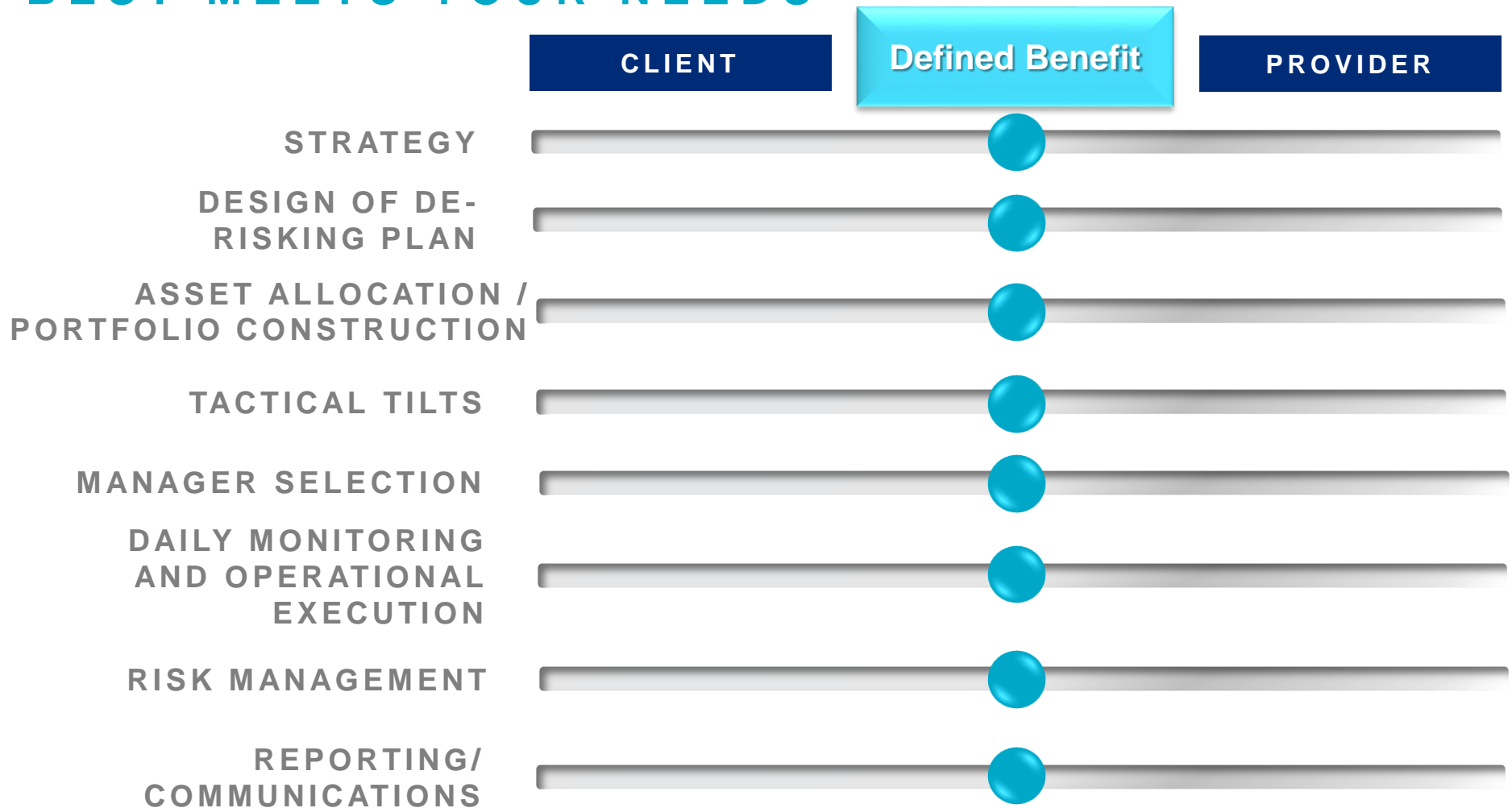
APPROACHES ADOPTED



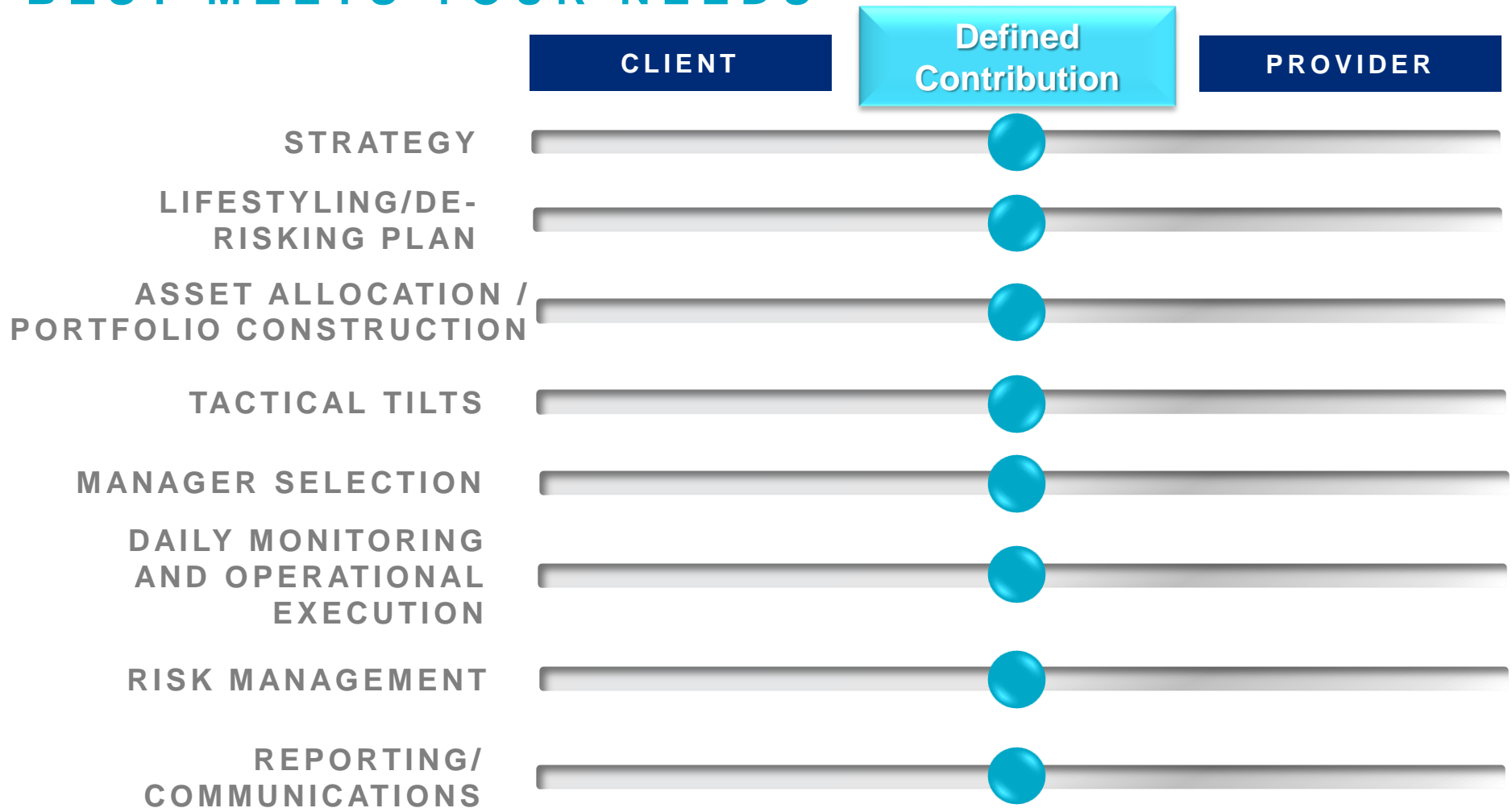
FINDING THE LEVEL OF DELEGATION THAT BEST MEETS YOUR NEEDS



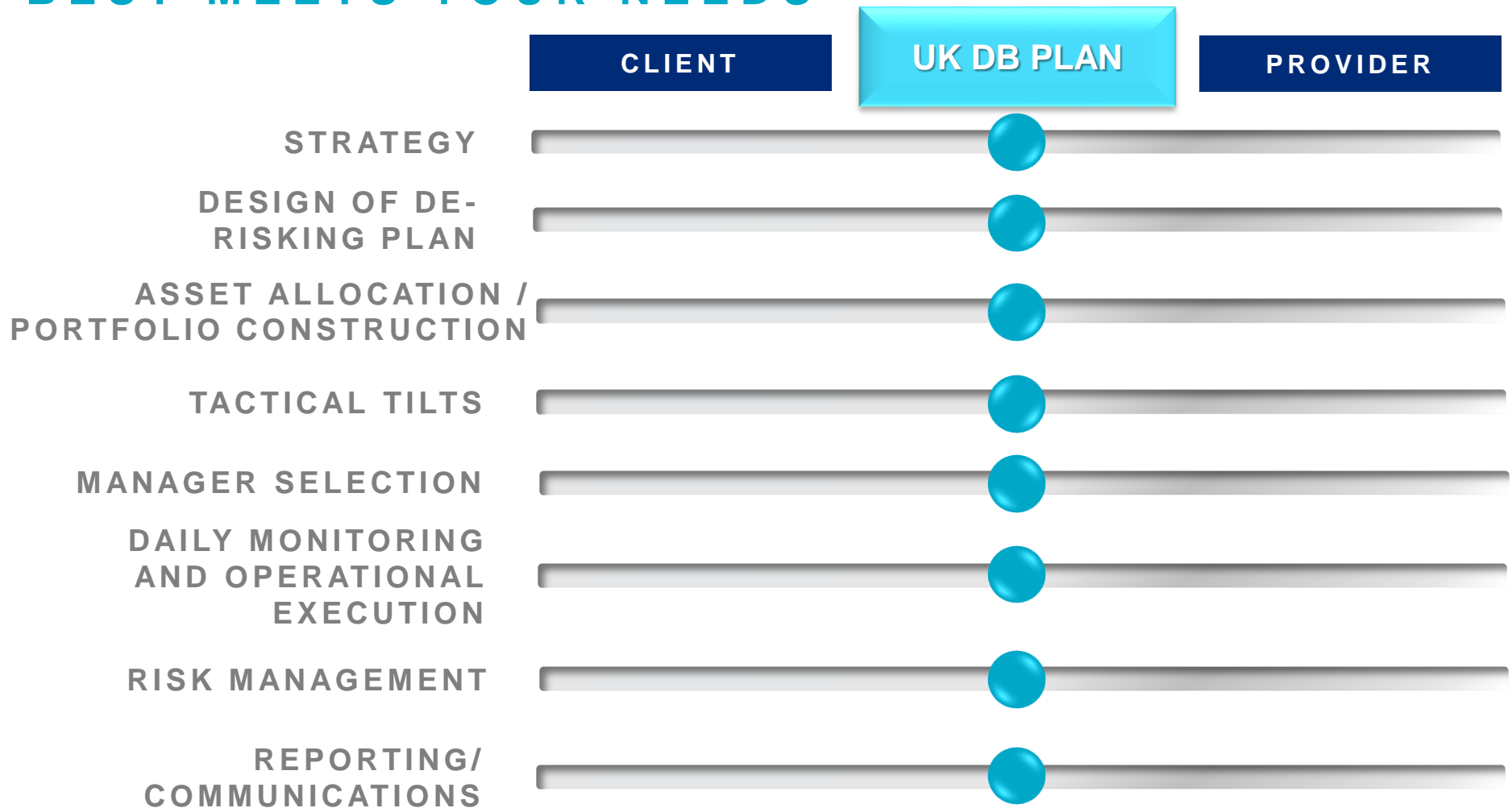
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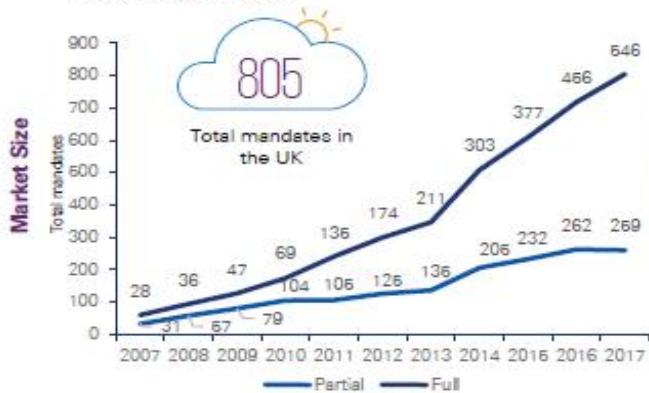
MARKET UPDATE

2017 KPMG UK FIDUCIARY MANAGEMENT SURVEY

2017 Highlights

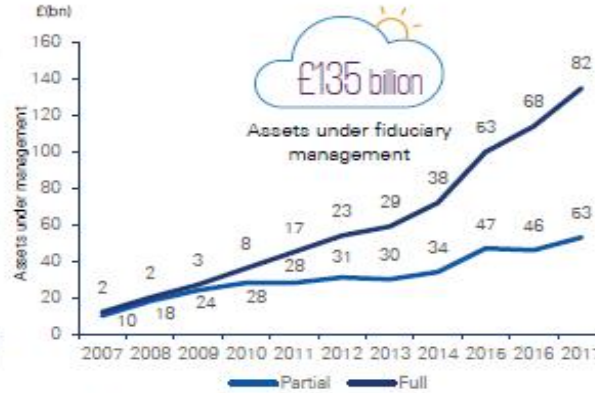
Continued growth in the number of mandates

(some schemes using "partial FM" switched to "full FM" mandates over the year)



Note: Some providers restated 2016 figures.

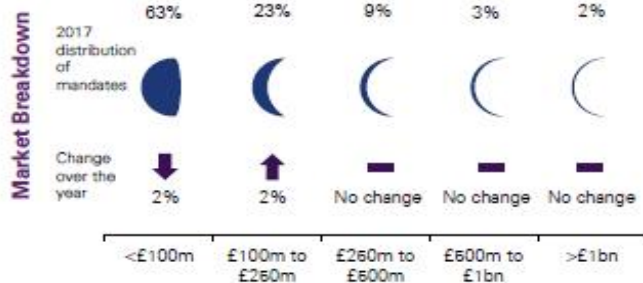
Continued growth in assets under management



Note: Some providers restated 2016 figures.

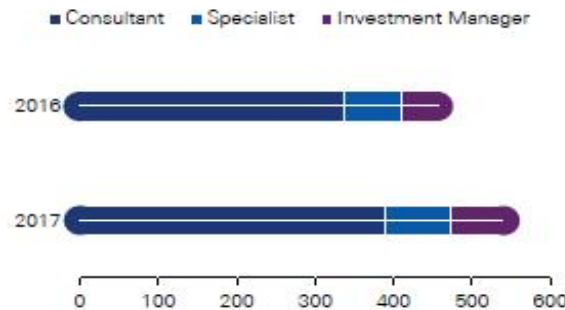
Proportions of mandates by size

Big and small schemes are using fiduciary management. This distribution is equivalent to the proportion of big and small pension schemes in the UK.



Number of fully delegated mandates by provider type

"Consultants" continue to manage the majority of mandates.



Independent advice

We define independent advice as written advice provided to the Trustees from a third party.

60% of new appointments this year were advised by an independent third party.



17% of schemes use an independent third party overseer in conjunction with their fiduciary manager.



Sources for data in this survey:

Fiduciary providers and KPMG calculations.

Additional Notes:

Unless labelled for full or partial mandates, data/comments are shown for full FM mandates only. Where data was not available for a specific question from a fiduciary manager, this manager was excluded from that part of our analysis. This is not expected to have a material impact on the figures.

THE CHALLENGES OF DELEGATION

1. CONFLICTS OF INTEREST



CONFLICTS OF
INTEREST?

ADVISORY-ONLY
VERSUS DELEGATED
MODEL



Project based or Asset based Fees



Emphasise the Complex or the Positive



Constrained to scale of assets or reach of
fund infrastructure

THE CHALLENGES OF DELEGATION

2. COSTS



**INCREASED
COSTS?**



Leverage Scale to lower manager fees



Scope for wider contractual services



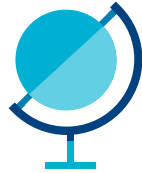
Cost impact often broadly neutral

THE CHALLENGES OF DELEGATION

3. MARKET CONDITIONS



MARKET CONDITIONS



**Access diversifying asset classes/
implement efficient de-risking**



**Market conditions challenging for both
arguments**



Prepositioning to capture opportunity

DIVERSIFICATION IT WORKS

- The objective of diversification is not to increase return in a given year, but to pursue a steadier progression of returns from year to year – as illustrated by the line drawn.
- The sample diversified growth portfolio outlined below has returned 5.8% p.a. versus a return of 3.7% p.a. for global developed equities – despite strong performance from developed equities in recent years

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total p.a.
		31.3%	16.5%	54.4%	18.2%	25.7%	6.0%	72.9%	34.9%	10.9%	17.4%	26.7%	26.8%	17.1%	18.2%	20.6%	8.6%
10.3%	8.2%	29.6%	15.3%	33.3%	9.0%	10.8%	-0.3%	57.2%	27.1%	8.0%	16.4%	21.2%	19.5%	11.0%	16.1%	7.7%	8.0%
8.8%	-2.5%	11.6%	14.1%	26.2%	7.8%	6.5%	-3.5%	39.6%	23.7%	6.0%	15.7%	13.5%	17.5%	10.4%	14.5%	7.5%	6.7%
7.3%	-15.0%	10.7%	11.3%	25.9%	7.4%	1.1%	-23.7%	30.1%	21.7%	1.5%	14.9%	10.9%	16.6%	7.2%	13.2%	5.9%	5.8%
6.3%	-20.4%	8.7%	8.6%	24.1%	6.7%	-1.7%	-26.0%	25.9%	20.7%	-1.4%	14.0%	3.3%	16.0%	7.1%	11.4%	3.1%	5.7%
2.7%	-26.8%	8.5%	6.4%	22.5%	4.8%	-3.2%	-28.3%	18.2%	19.8%	-2.4%	12.4%	0.5%	13.8%	6.7%	10.7%	2.2%	5.3%
-2.6%	-23.8%	4.1%	4.3%	17.1%	3.1%	-4.8%	-37.6%	15.5%	19.5%	-6.0%	9.3%	-4.2%	11.4%	-1.0%	10.7%	1.2%	4.1%
-5.7%	-28.7%	-2.7%	3.3%	11.7%	0.3%	-6.7%	-38.8%	12.8%	13.4%	-6.7%	6.4%	-6.8%	7.4%	-5.2%	7.4%	-3.2%	3.9%
-12.3%	-32.0%	-4.8%	1.5%	5.9%	-4.2%	-9.1%	-50.8%	3.4%	5.0%	-15.7%	-1.7%	-12.9%	6.4%	-5.2%	1.0%	-4.0%	3.7%

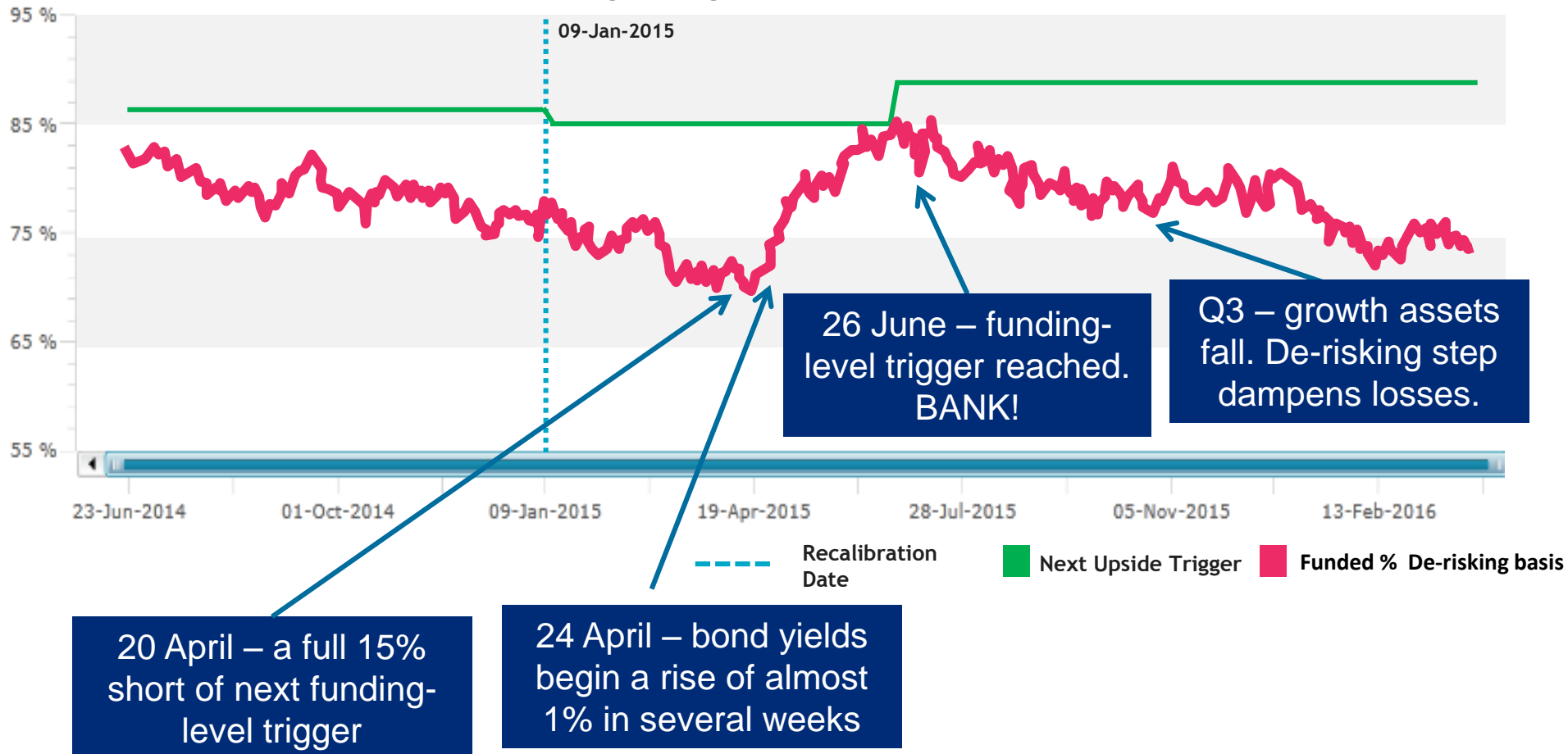
Global Equities	Small Cap Equities	Low Volatility Equities
High Yield Bonds	Diversified Portfolio	Corporate Bonds
Emerging Market Debt	Emerging Markets Equities	Absolute Return

DE-RISKING

PRE AGREED ARCHITECTURE MATTERS

Funding level of typical DB scheme (versus economic liability):
Mid-2014 to Mid-2016

De-risking Funding Level 30 March 2016



INVESTORS' PRIORITIES DON'T CHANGE...



MANAGING RISK, PURSUING RETURN



SECURING GOOD ADVICE



FINDING QUALITY MANAGERS



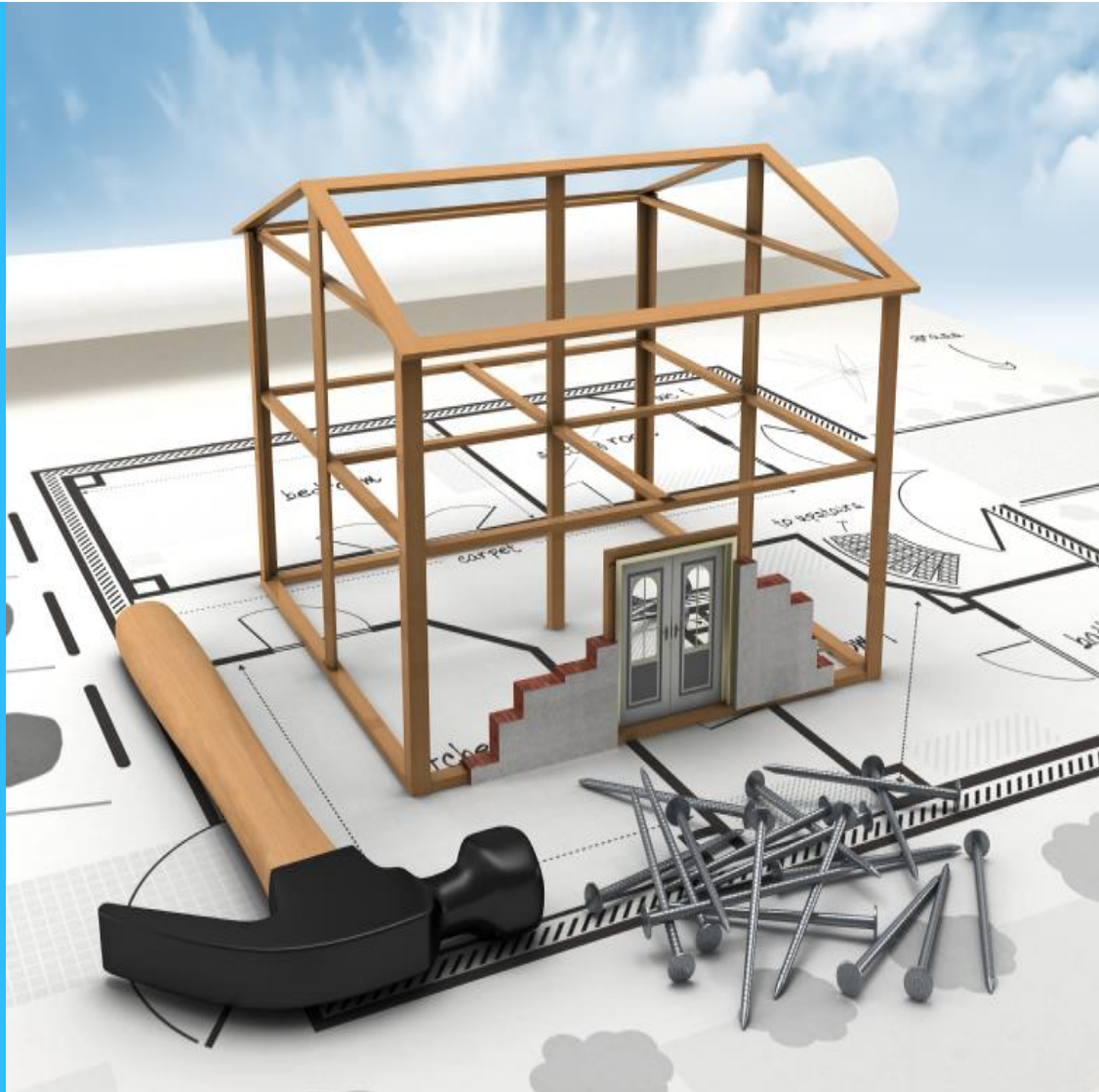
ROBUST MONITORING

WHAT WORKS FOR YOU?

TIME

SKILL

COST



FASTER?

SMARTER?

CHEAPER?



**CASE STUDY: GOVERNANCE
AND INVESTMENT
ARRANGEMENTS**

**TOM ARMSTRONG – KILLEEN
GROUP**

Governance

Three way relationship:



- **Common goal....delivering the members' pension promise**
- **Good governance is on the agenda for all**

Plan Governance

Governance Defined:

“The establishment of policies, and continuous monitoring of their proper implementation, by the members of the governing body of an organisation”.....businessdirectory.com

“Governance has been defined to refer to structures and processes that are designed to ensure accountability, transparency, responsiveness, rule of law, stability, equity and inclusiveness, empowerment, and broad-based participation”.....[UNESCO](http://unesco.org)

Plan Governance

In a pension plan context, governance includes:



Investment Manager selections Decision making criteria

**Product range /
access to
managers**

Client service

**Fees
and
costs**

**Strategic
Investment advice
quality**

Reporting

Actuarial Link

Investment Manager selections Decision making criteria

Product range /
access to
managers

Client service

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and
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Actuarial Link

Experience so far...

Product range:



Investment Manager selections Decision making criteria

Product range /
access to
managers

Client service

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quality

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Actuarial Link

Experience so far...

Client servicing:



Investment Manager selections Decision making criteria

Product range /
access to
managers

Client service

Fees
and
costs

Strategic
Investment advice
quality

Reporting

Actuarial Link

Experience so far...

Fees:



Investment Manager selections Decision making criteria

Product range /
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Experience so far...

Investment advice:



Investment Manager selections Decision making criteria

Product range /
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Experience so far...

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Experience so far...

Actuarial link:



Experience so far.....

Transition ... easy:



We haven't had too much of this !

Plan Governance

In a pension plan context, governance includes:

Establishing
policies

Implementing
those policies –
challenging in
practice

Evaluating
policies

Being
accountable

Being responsive
– challenging in
practice

Governance Achieved

Q&A