

SURVIVE THRIVE



Natural Selection

Financial Services Forum

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**Actuaries
Institute**



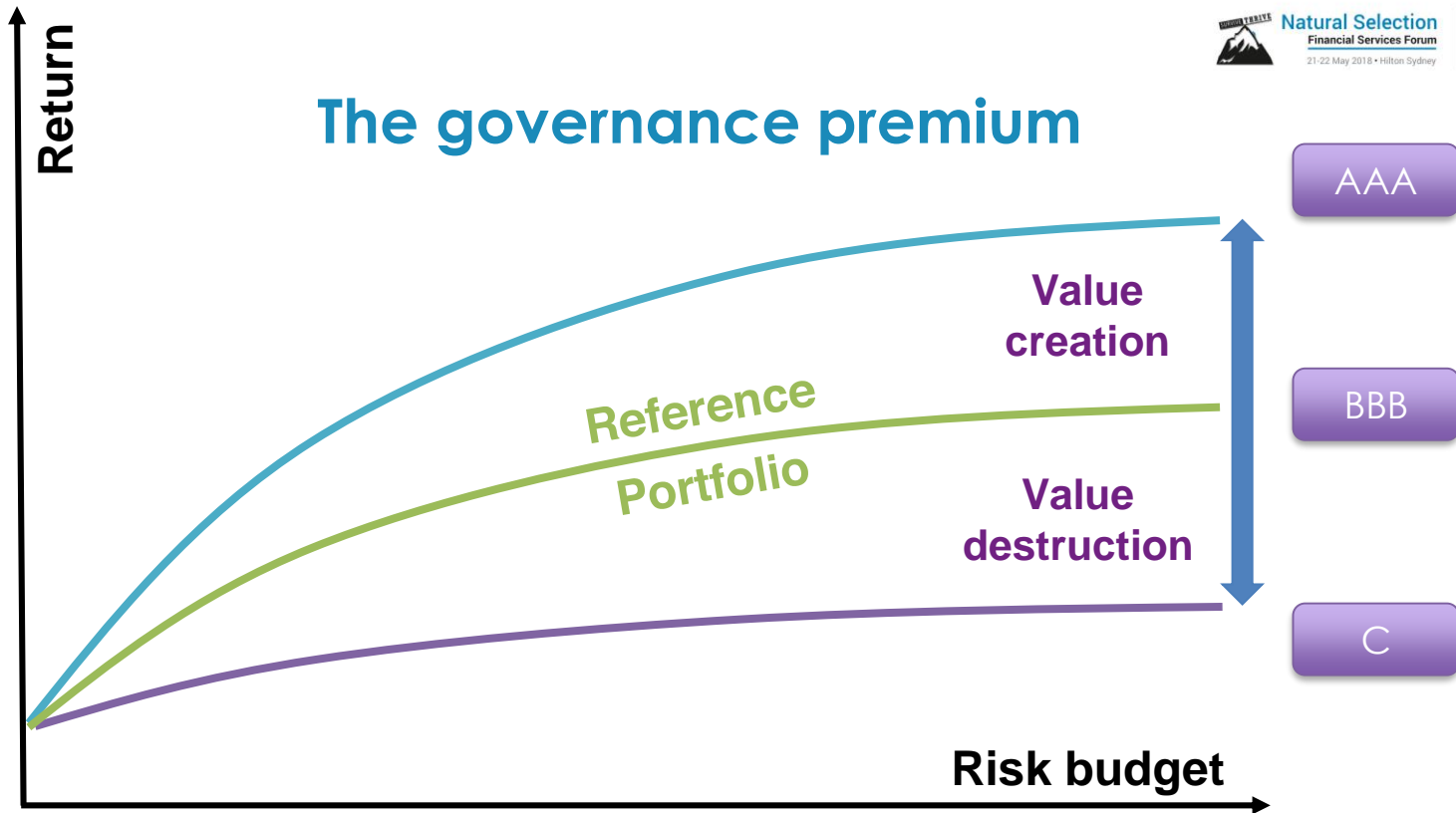
Investment Governance

Sue Brake

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Believing in Governance



CalPERS will be best positioned for success if it has strong governance
CalPERS USA

We value effective governance, leadership and strong culture as essential for a world-class investor
Railpen UK

Good governance is good business and contributes to sustainable value
OTPP Canada

Good governance and corporate social responsibility are important
ABP Netherlands

Clear governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund
NZ Super Fund

High quality governance and decision making is critical to success
Universities Superannuation Scheme UK

Strong governance is critical, particularly given the fact that all investors delegate part of their arrangements to third parties
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How much is it worth?

It's hard to be exact. We can't run a fund in parallel versions

Maybe
100-200 bps
p.a

Ambachtsheer

Maybe
100 bps p.a. +

Various studies looking
at average equity
market investor
performance vs the
market

Maybe
140 bps p.a

CEM Benchmarking
difference between 10th and
90th centile net value add
over 10 years

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What will it cost?

Maybe 1-2 bps upfront.

Governance investment recouped many times over.

Requires commitment to continuous improvement.

May require significant cultural change.



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	Value creation	Value destruction
People	<ul style="list-style-type: none"> Having motivated staff aligned to maximise risk-adjusted fund performance Having a learning culture 	<ul style="list-style-type: none"> Mismatched skills and capabilities Chasing past returns Losing nerve Playing the 'blame game'
Operational	<ul style="list-style-type: none"> Identifying new opportunities through positive feedback loops A focus on execution 	<ul style="list-style-type: none"> Lack of alignment and 'ownership' Inconsistency of approach Transactional inefficiency Missing warning signals
Investment	<ul style="list-style-type: none"> Rigorous application of decision frameworks Diversification across multiple factors Effective delegation of responsibilities 	<ul style="list-style-type: none"> Sub optimal asset allocation Poorly specified decision rules Unduly restrictive policies Missed opportunities
Business	<ul style="list-style-type: none"> Exploiting competitive advantages Coherently mapping investment actions to goals and beliefs Staying the course 	<ul style="list-style-type: none"> Goals that keep shifting Decisions that are inconsistent with beliefs

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Total Portfolio Approach

What is it?

- Continuous focus on total portfolio
- All activities aimed at achieving overall objectives, rather than indirectly through asset class or other sub-objectives
- Specialists must act only for the good of the overall fund
- Dynamic and fluid approach to asset allocation/risk factors/return drivers
- The approach followed by the world's leading asset owners

Why do it?

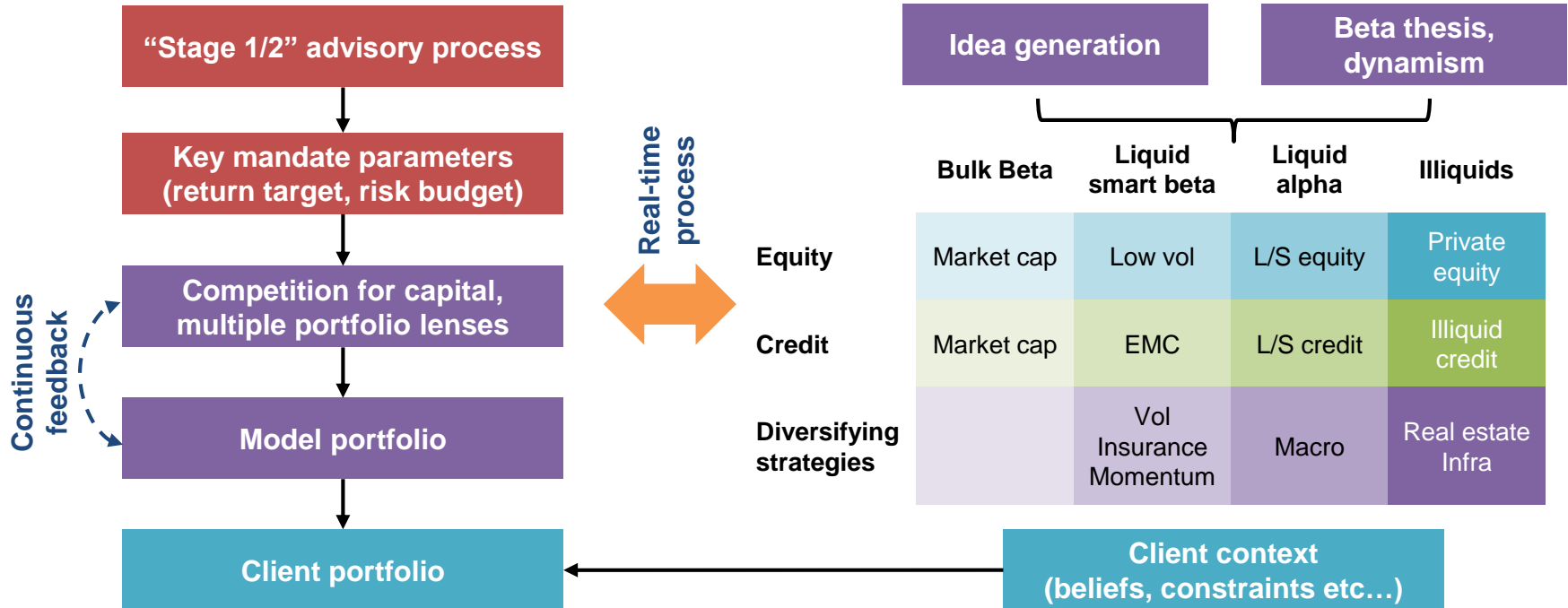
- Is by design more efficient than an SAA (two-step) model which puts tracking error into the process
- Is by design more real-time and long-term than SAA approaches
- Strong integration between specialists and a genuine 'competition for capital'
- Improved communication and understanding of the whole

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WTW Investment Process



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Portfolio Quality

- Excess return after all costs
- Expected volatility
- Left tail risk assessment

Return per unit of risk

- Low GDP sensitivity
- Differentiated approach to alpha generation
- Different behavior to other holdings in varying scenarios

Diversity implications

- Liquidity
- Flexibility
- Simplicity
- Cost vs value

Practical implications

- Exposure to key megatrends (opportunity and risk)
- Sustainability of alpha through mandate design
- Confidence in assumptions

Sustainability

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