

The Frontier Line

Thought Leadership and insights from Frontier Advisors

GIRA Global Governance Survey Results

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Frontier Advisors has been at the forefront of institutional investment advice in Australia for over two decades and provides advice over more than \$250B in assets across the superannuation, charity, public sector and higher education sectors. The fact our advice is fully independent of product, manager or broker conflicts, means our focus is firmly on tailoring optimal solutions and opportunities for our clients.

The Frontier Line explores a range of investment issues and ideas to explain and illuminate areas for investors to be aware of and be thinking about. Our specialist and sector research teams constantly review and discover topics to provide new perspectives and enrich understanding of critical risks and opportunities.

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Natasha previously worked for National Australia Bank. She spent two years working in debt markets before moving into an institutional sales role. Natasha spent 2008 in the UK working as an Analyst at Watson Wyatt.

Natasha holds a Bachelor of Commerce with Honours in Economics and a Bachelor of Arts degree from the University of Melbourne.

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Introduction

Institutional investors all over the world are grappling with gyrating markets, troubled economies, increased regulation and policy makers in uncharted waters. And if all that wasn't enough, they are also dealing with an increasing requirement to raise the bar on various aspects of their decision making processes. Some of this has been pushed by regulators, but there is also a general desire by trustees to reflect the fact that the responsibility for investing large sums of money on behalf of others is substantial and warrants appropriate investment governance structures and processes.

In mid-2015, the Global Investment Research Alliance (GIRA) – Frontier Advisors

(Australia), LCP (the UK) and Segal Rogerscasey (North America) – jointly surveyed our clients about their investment governance practices. The purpose of the survey was to better understand how investment governance is evolving in our three regions and to set the baseline from which we can assess changes and continue to develop our advice to clients going forward.

Survey overview

The survey included a range of superannuation schemes by type (e.g. defined benefit and defined contribution), fund size as well as the number of internal staff available to support the investment management of the fund.

The survey consisted of 30 questions relating to the investment governance framework of our clients across the three regions. We received 32 responses with roughly an equal number of responses from Australia, the US and the UK. The majority of Australian respondents were Defined Contribution schemes compared to the majority of UK

respondents which were Defined Benefit funds. The majority of US respondents had less than \$500 million in assets under management compared to the majority of Australian respondents which were much larger at greater than \$10 billion.

This report outlines the key themes we identified from the survey results.

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Key themes

The results of the 2015 GIRA Global Governance Survey identified five key themes that highlight similarities and

differences in the decision making frameworks of surveyed funds across the three regions.

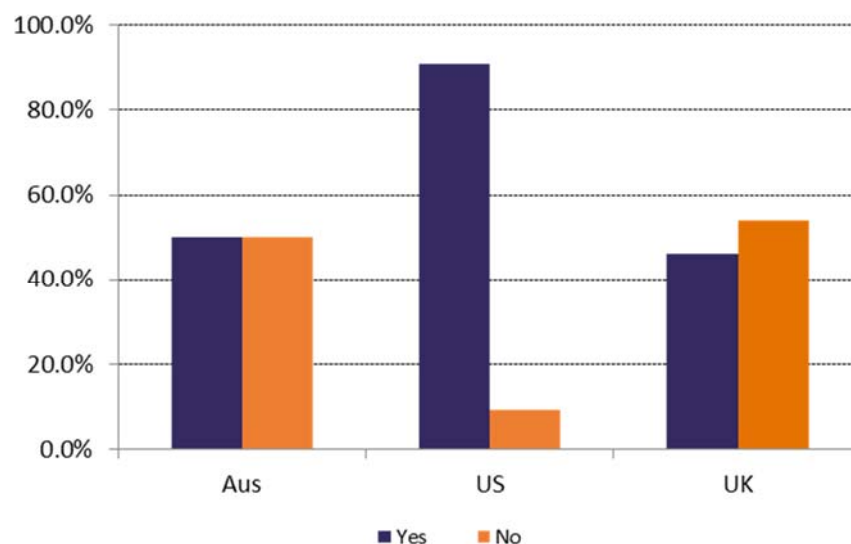
Investment beliefs – actions speak louder than words!

A key theme of the survey was to better understand how funds view investment beliefs and how these are incorporated into their decision making frameworks.

We found that all survey respondents believe it is useful to have a set of written investment beliefs and all respondents do have these beliefs documented in a living policy document such as an Investment Policy Statement or the like. The majority of respondents (at 73%) review these investment beliefs on an annual or more frequent basis.

While all respondents have a written set of investment beliefs, it is surprising that only around 63% refer to these investment beliefs when making major investment decisions. This is broken down across the regions in the chart below, which shows that around half of the respondents in Australia and the UK refer to their investment beliefs when making decisions, compared to around 90% of respondents in the US.

Chart 1: Are beliefs referred to when making investment decisions?



Source: Frontier Advisors

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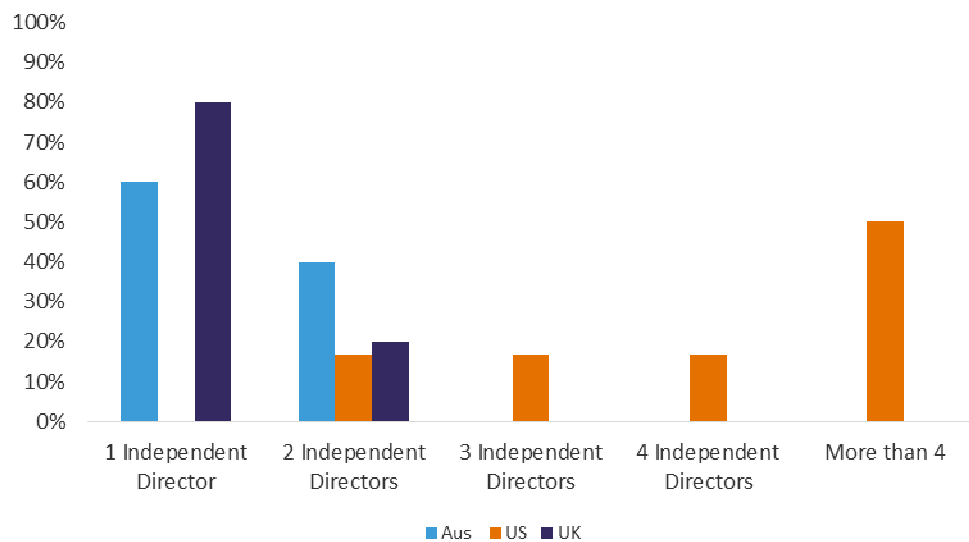
Independence on decision making bodies – evident but varies widely

Another key area of focus was in regard to independence on decision making bodies. The survey defined independence as being independent of the sponsoring organisation and not an employee of the fund. The survey referred to decision making bodies as the Boards and Investment Committees who in some cases have the delegation to make final decisions.

The number of Directors/Trustees on decision making bodies varied across the three regions for the funds surveyed. In Australia and the UK, the majority of survey respondents have between seven and 14 Directors/Trustees. However, in the US, the majority of respondents have a smaller number of Directors/Trustees, at six or less.

Across the three regions, the majority of respondents are represented by independent directors on their decision making bodies (around 70%), however chart 2 shows that in the UK and Australia, this only accounts for one or two independent Directors. This is in contrast to the US, where the majority of respondents have more than four independent directors.

Chart 2: Number of Independent directors/trustees



Source: Frontier Advisors

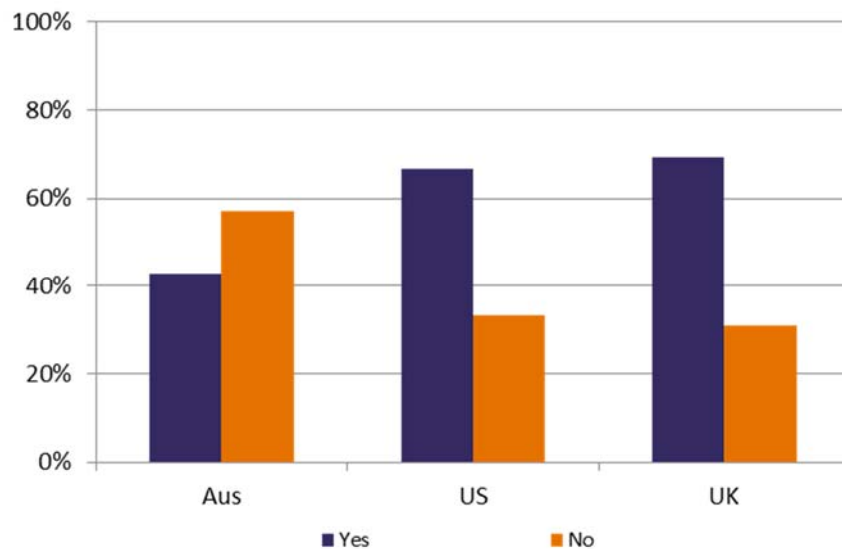
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Independent Chair – less evident in Australia

While the majority of respondents have an independent Chair, this was mainly evident in the UK and US with the majority of Australian respondents (57%) having a Chair who is aligned with a sponsoring organisation or an employee of the fund.

We note these results are likely to change significantly over the coming years in Australia, given the Government’s proposal to make it a requirement of Boards to have a minimum of one third independent directors, with the Chair of the Board drawn from these independent directors.

Chart 3: Is your Chair independent?



Source: Frontier Advisors

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Assessment of board/investment committees

The majority of respondents across the three regions have Investment Committees that meet on a quarterly basis. Meeting frequency is greater for the Australian respondents with the majority of Investment Committees meeting fortnightly or monthly.

The duration of the Investment Committee meetings varies across the regions with the majority of US and UK respondents spending around two to three hours on investment-related matters per meeting compared to greater than four hours for the majority of Australian respondents.

What is interesting is the timeliness of these investment related decisions with half of the respondents making investment decisions in real time and half making these decisions based on the meeting cycle of the Board or the Investment Committee.

Just over half of the survey respondents conduct an internal assessment of their Boards or Investment Committees and the majority undertake such a review on an annual basis (or even more frequently).

When this is broken down into the regions (Chart 4), it is interesting to note all of the Australian respondents conduct an internal assessment compared to none of the US survey respondents.

Only 29% of survey respondents conduct regular external assessments of their Boards and Investment Committees. Chart 5 shows external assessments are significantly more common in Australian (at over 80%) compared to less than 15% for the US and the UK. The external reviews mainly occur every two or three years.

Chart 4: Conduct internal assessments of board/committees

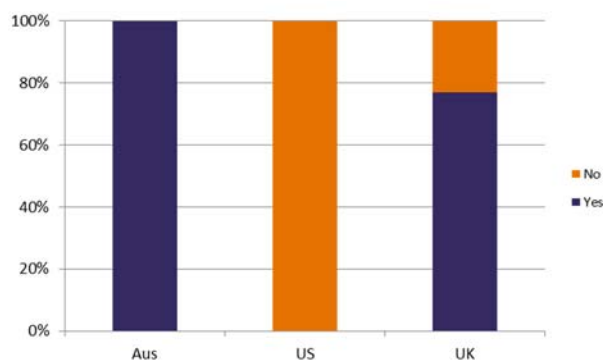
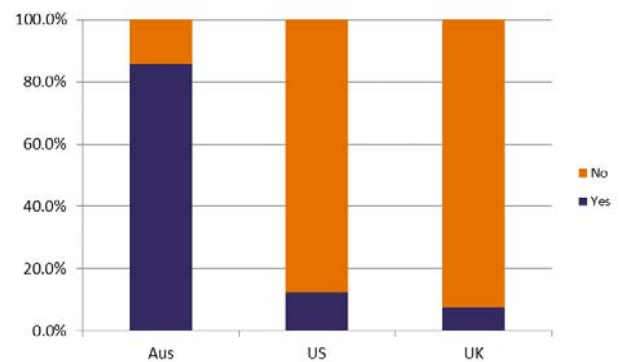


Chart 5: Conduct external assessments of boards/committees



Source: Frontier Advisors

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Internal teams – Delegation plays an integral role in Australian funds

The chart below shows that the Australian survey respondents have much larger internal teams compared to their surveyed UK and US peers.

In addition, delegation is an important way that decisions are made for the Australian funds surveyed versus those surveyed in the US and UK. Chart 7 shows all the survey respondents in Australia delegate decisions to their internal investment teams compared to fewer than 30% for the US and the UK.

The majority of decisions delegated include allocating regular cash flow, dynamic asset allocation and investment manager selection and termination. The majority of respondents formally review the performance of these decisions on a regular basis.

Chart 6: Total number of internal staff

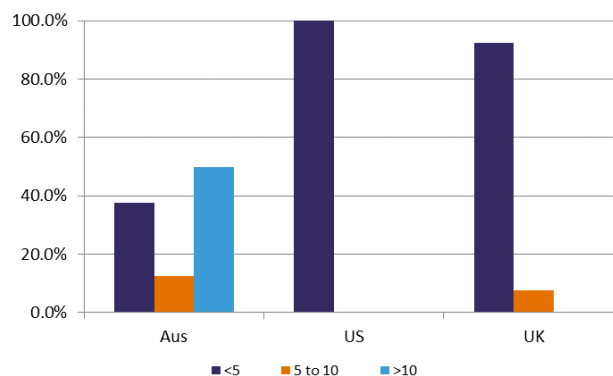
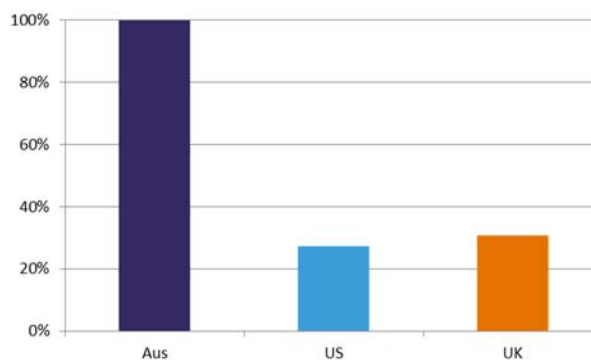


Chart 7: Delegation at the regional level



Source: Frontier Advisors

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Conclusion

The results of the 2015 GIRA Global Governance Survey give us valuable insights and understanding into how investment governance is considered among funds across Australia, the US and the UK. It also highlights the similarities and differences in the decision making frameworks between the funds we surveyed across the globe.

We note the characteristics of the survey respondents varied widely and will have an impact on the survey results. For example, a small fund may not have the same resources to allocate to investment decisions as a large fund would. We also note the survey, while meaningful at just over 30 respondents, is still small and not necessarily indicative of typical market practices in each region.

With this in mind, it is interesting that while all the survey respondents regard investment beliefs as important (100% believe in having a written set of investment beliefs and actually have a written set of investment beliefs), only a little over a half of the respondents actually refer to these beliefs when making investment decisions. While not specifically surveyed, we would expect this is a significant development in the last five to ten years.

Another key area of focus of the survey was in regard to independence on decision making bodies, which varied widely across the regions. It is less evident in Australia however, with the majority of Australian respondents having a non-independent Chair.

Assessment of Boards and Investment Committees was another significant area of difference across the three regions with 100% of Australian respondents conducting internal assessments of their decision making bodies, compared to zero for the US. Similarly, external assessments are significantly more common with the Australian respondents than the US or UK.

The results of the survey found Australian respondents have much larger internal investment teams compared to the US and the UK and it is therefore not surprising that delegation plays such an important role in Australian funds.

This is the first year GIRA has conducted a Global Governance Survey and we plan to continue it on a regular basis, so we can continue to identify trends and changes and ensure our clients remain at the forefront on investment governance related issues.



About Frontier Advisors: Frontier Advisors is one of Australia's leading asset consultants. We offer a range of services and solutions to some of the nation's largest institutional investors including superannuation funds, charities, government / sovereign wealth funds and universities. Our services range from asset allocation and portfolio configuration advice, through to fund manager research and rating, investment auditing and assurance, quantitative modelling and analysis and general investment consulting advice. With around \$230 billion in funds under advice we have been providing investment advice to clients since 1994. Our advice is fully independent of product, manager, or broker conflicts which means our focus is firmly on tailoring optimal solutions and opportunities for our clients.

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