

2003 Pensions Convention

Trustee effectiveness

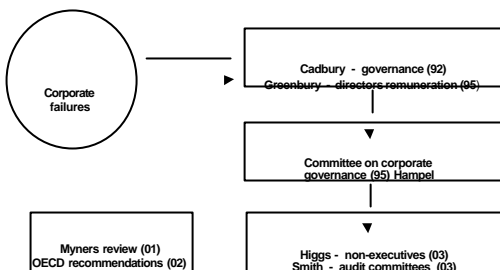
Mark Harris
Anne-Marie Southall

1 - 3 June
Grand Hotel, Brighton

Agenda

- Corporate governance environment
- Pressures on trustees
- Current levels of reassurance
- Trustee effectiveness
- Trustee competencies
- People in groups
- Implications for actuaries

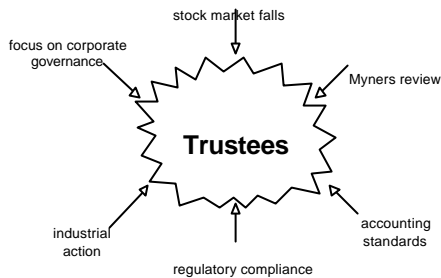
UK corporate governance environment



The story so far...

- First there was Cadbury on the Financial Aspects of Corporate Governance in 1991
- Then the Greenbury report on top salaries
- Then Hampel on the combined code
- Then Myners report on institutional investment
- Then Higgs on the role and duties of non-execs
- The OECD, IMF and the World Bank now all have governance codes and the latter considers that:
 - "The proper governance of companies will become as crucial to the world economy as the proper governing of countries"

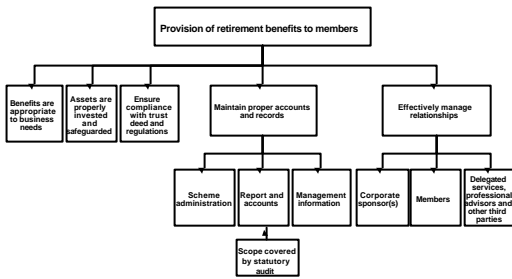
External pressures on trustees



Breadth of trustee ambit

- Objectives, common or conflicting with company objectives
- Balance of power
- Funding strategy
- Investment strategy
- Operational risk
- Delegation and supervision
- Effective use of advisors
- Personal effectiveness
- Accountability to members
- And more

Limited scrutiny



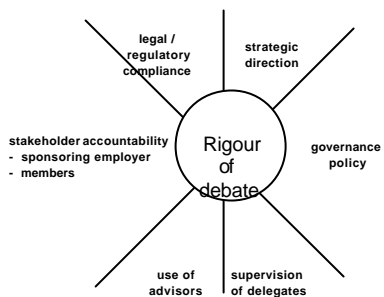
What is trustee effectiveness?

It is exhibited by a trustee body which understands the nature of its job and which operates in a way which gets that job done well.

- Governance
- Structure
- Performance

"Effective board performance is a goal, not a destination, which needs attention and fine tuning".

The trustee role



Knowledge required: investment as an example

- Assets
 - characteristics of each class
- Liabilities
 - characteristics of each class
- Strategy
 - risk
 - cashflow
 - asset allocation
 - benchmarks and tolerance limits
- Supervision of fund manager
 - mandate
 - reporting
 - SIP
 - costs

Who is involved; what is their expertise?

- Representation of stakeholders
- Breadth of right skills, knowledge and personal attributes
- What are these?

Technical competencies:

- management of active corporate governance
- management of risk
- investment knowledge
- operations of pension schemes
- financial acumen
- legal responsibilities

Behavioural competencies:

- communication
- strategic thinking
- leadership/followership
- building relationships
- results orientation
- challenging effectively
- effective decision-making

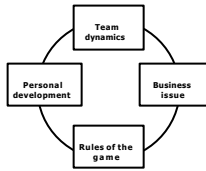
Common issues in management teams

- Team members say one thing and do another
- "Action" lists fudged so everyone can interpret it in their own way
- Interpersonal issues manifest themselves as power-plays, sabotage or alienation
- Teams easily side-tracked
- Team members pursuing their own personal agendas
- Team members colluding with each other to hide poor performance
- Lack of challenge:
 - fear of confronting difficult issues
 - fear of embarrassment
- Nodding dogs – everyone nods in agreement but with no intention of taking action

The business learning cycle

Our experience shows that resolving any business issue effectively and in a manner that is **sustainable** means we have to build the capacity for change, which requires people to:

- understand the current culture - the rules of the game – and help change these and shape more appropriate ones if necessary to meet changing business needs
- work effectively together – team dynamics
- be prepared to focus on personal development and make the changes that they personally need to make

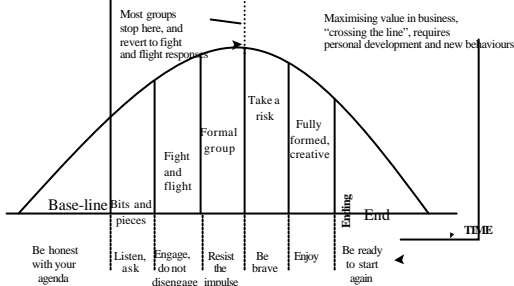


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Group dynamics

- What is done is directly dependent on how you decide to do it
- How do you get the group to work effectively together?
 - polite exchange
 - fight/flight
 - formal group
- Individual "baggage"/past history

The dynamics of interactions in groups



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Rules of the game (illustration)

Rule of the game...

We say we want to understand how our investments are doing so that we can make good decisions for the pension scheme; then we set things up so that we will not understand

- **Behaviours:**
 - Invite investment manager to meeting
 - Investment manager circulates large, complex paper in advance of meeting that we don't read or understand
 - Investment manager gives standard presentation which we listen to politely, and avoid challenging
- **Results:**
 - Minimal debate on matters of significance
 - Minimal increase in our understanding
 - Waste of time
 - Higher risk of sub-optimal investment decisions
 - Do not address strategic decisions within power of trustee body
- **Rationale:**
 - We spent a whole hour talking about investment
 - X and Y are excellent investment managers. We keep a close eye on their performance but it's their job not ours

Implications for actuaries and other advisors

- Need to learn about business
- Expect more challenge
- More rigorous debate
- More fun (if you can cope)
- Depends on your own response when in the group
