

Tomorrow's Value: Achieving long-term financial returns

This agenda is aimed at building on the guide to help you, as a pension fund trustee board, structure your own discussion on how best to establish a framework for delivering long-term financial returns.

It contains practical questions, existing practices and resources that you can use to better align your asset managers and advisers to the interests of your beneficiaries.

Rather than being prescriptive, this agenda aims to provoke thinking and to help you have more effective conversations, as a board, in order to reach a more complete judgement about the advice you receive. It should also help you give your asset managers clear investment objectives and incentives that are well aligned with the beneficiaries' long-term interests, and effectively monitor their strategy for achieving this.

In terms of use, we would suggest that the chairman of the board of trustees might answer some of these questions first and then share elements of this agenda with the relevant trustee(s).

Statement of terms

Alongside reading the guide and resource provided, you will come across a number of terms we use. What we mean by these is as follows:

Fundamental beliefs

Trustees should be clear about their fundamental beliefs and what factors they take into account when considering long-term financial objectives and investment related risks.

Board mandate

Trustee boards should have a shared clarity of the most fundamental principles of their *own* mandate, which helps them to formalise their strategic intent in relation to values, standards, performance outcomes and key issues of risk and forward development.

SIPs

SIPs can, in principle, provide much of this information. However, they may often be completed without the Board being clear about their own mandate.

Mandates to suppliers

On the basis of shared clarity about fundamental beliefs, the mandate and SIPs, this will better frame the parameters of the mandates given to their suppliers.

Thinking about your board's mandate

1. What are your fundamental investment beliefs?
2. What does long-term value mean to you?
3. What does a successful fund look like to you?
4. What are the features of a company or asset that you believe are likely to lead to long-term value creation?
5. Who decides what your board's mandate is?
6. How do you structure your mandate?
7. How do you implement that mandate?
8. How do you ensure your investment managers' objectives are aligned with the long-term interests of your beneficiaries?

Resources

- ICGN model mandate initiative: Model contract terms between asset owners and their fund managers
- Towers Watson – Sustainability in Investment

Notes/Additional Questions

Statement of investment principles (SIP)

1. How are you documenting your strategy?
2. How can you ensure your SIP reflects your own investment beliefs?
3. How does your SIP reflect the specific situation of your scheme?
4. How does your SIP provide meaningful explanation to your beneficiaries?
5. Is the SIP compliance-led, or a document that trustees really own?

Resources

- USS Investment Beliefs and Guiding Principles

Notes/Additional Questions

Questions to ask your supplier

1. How do you monitor outcomes?
2. What are your measures of success?
3. Do you have incentives do consider long-term factors?
4. What are the risk factors to my portfolio in the next 5/10 years?
5. If the current market environment has shifted my portfolio enough to adversely affect my ability to reach my long-term goals, what should I do about it?
6. If I'm feeling uncomfortable with the potential short-term losses I could face in this market environment, should I adjust my asset allocation?
7. *How can I evaluate the potential risk of alternative investments, such as real estate, hedge funds and private equity? (for investment consultant)*
8. To what extent does my portfolio contain sustainable investments?
9. Do you know how much risk there is around long-term value in my portfolio?
10. Do you understand what impact these investments are having?
11. Are you a signatory to the United Nations Principles for Responsible Investment (UNPRI)?

Resources

Tomorrow's Value:
<http://tomorrowcompany.com/tomorrows-value-pension-fund-resource>

Board of trustees' skill set

1. What skills does the board need and which may be lacking?
2. Do the trustees have the skills and confidence to challenge advisors?
3. Are board members' skills assessed in the context of the whole board?
4. And, if so, are they assessed to meet the need of the board as a whole?
5. What resources are available to the trustees?
6. What training/education do you receive?
7. What additional skills might need to be brought into the board to help deliver on your mandate?

Notes/Additional Questions