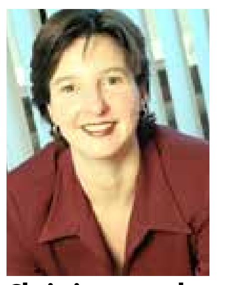
SPECIAL PROJECTS
SALES REPRESENTATIVE: ELMARIE MARTIN
WRITER: ALF JAMES
Published in The Star, Pretoria News, The Mercury & Cape Times

Asset Manager Review Willis Towers Watson

What makes an effective Trustee Board?

Erich Potgieter



Christina van der Breggen

WHAT are the characteristics of a truly effective retirement fund Trustee Board?

First, we need to ask what we mean by "effectiveness". This must go beyond mere compliance with regulatory requirements.

A truly effective Trustee Board would be able first to specify a set of well-considered strategic goals, and then to give the Fund the best chance of achieving these goals in a cost-effective way.

Different Funds may have different goals – those for a defined benefit fund (where members' benefits are calculated in terms of a formula, and the employer carries much of the financial risk) will be different to those for a defined contribution fund, which is really a savings arrangement in which all the financial risk is carried by the members.

But in all cases, setting suitable goals for the Fund's investment strategy will be a key task, because the heart of Trusteeship is really to safeguard and grow the pool of assets which exist to provide benefits for members when they leave employment. Getting the right balance between security and growth is of course one of the main challenges for Trustees.

So, what does a Trustee Board need to make itself truly effective?

Ideally, the Trustees themselves would have the mix of all the skills needed to do the job. This would include financial and investment expertise, some legal knowledge, and possibly some actuarial training, among other skills. Also, ideally, the Trustees would have the time to deploy all these skills for the benefit of their Fund.

In reality, this almost never applies.

Many Trustees are elected to Boards because they have the confidence of their fellow employees, but without any specific qualifications. And few employers can really afford to commit the time of senior professionals to their retirement funds – their skills are needed elsewhere. As a result, the average Trustee has limited time and expertise.

Would training help? Sadly, Trustees often seem to begrudge the time needed for training sessions, and training often focuses narrowly on legal responsibilities. The FSB is considering ways to make Trustee training more effective, although we doubt that making Trustees write exams would improve things – it may just deter many people from becoming Trustees.

Of course all Boards should put more effort into developing decent training programmes, and should look at ways to encourage Trustees to participate in these. But it will not be possible to give Trustees all the skills they might need, through training. Trustee Boards will remain heavily reliant on outside expertise.

The Fund's Principal Officer can play an important role here. The Principal Officer should focus on ensuring that the Fund achieves "operational excellence". This includes full compliance with the letter and spirit of legislation and the Fund's own rules, but does not end there.

The Principal Officer should help the Trustees to focus on strategic matters by looking after operational matters for them. One important aspect of this is ensuring that the Fund makes effective use of its service providers – administrators, actuaries and legal advisors, benefit and investment consultants, and investment managers, among others.

The Principal Officer can also help by identifying where decisions and their implementation are delayed by the internal processes of the Board or by other factors, and can look for ways to eliminate such "roadblocks". Encouraging Trustees to delegate more in some areas may be one such way.

The Principal Officer may guide and advise the Trustees, for example in identifying and managing conflicts of interest, and will certainly assist in drawing up the agendas for Trustee business, but should not try to lead the Board, especially in strategic matters. That role should be reserved for the Chairperson of the Trustees.

The Chairperson is best placed to help the Fund achieve, or at least aim for, "strategic excellence" – true effectiveness, as we defined it earlier. So the choice of Chairperson is very important. In our view, it is generally not a good thing for Trustees to choose the Chair on the basis of seniority or status outside the Fund, or because it is "his (or her) turn".

Michael Morrell, former Acting Director of the CIA, has usefully summarised the characteristics which he sees in one (but only one!) of the current candidates for the US Presidency: "Prepared, detail-oriented, thoughtful, inquisitive and willing to change her mind if presented with a compelling argument". Trustees would do well to look for these qualities in candidates for their Chairperson.

The Chairperson must also have the "people skills" needed to manage debate among the Trustees, so that all views are aired without the debate becoming conflictual. This requires that the Chairperson shows respect for the other Trustees and, in turn, has their respect too.

All members of the Board (and the Chairperson in particular) should ideally have the following characteristics:

A fiduciary mind-set, and integrity and ethics;

A basic understanding of pensions and investments and the challenges facing pension funds;

A strategic outlook and an understanding of the concepts of risk management;

Enough time and diligence to carry out the role properly;

Credibility with members and the Fund's other stakeholders;

An appetite to learn;

The ability to challenge and also to adapt;

The ability to contribute to diversity and independence of thinking;

The skills of collaboration, negotiation, sound decision making and the ability to delegate effectively.

All Trustee Boards delegate some of their responsibilities – for example, no Trustees carry out the member administration work themselves, even if the Fund is "self-administered". Similarly, there are no modern Funds where the Trustees themselves decide on the stocks and shares to invest in.

Delegation may include the use of multi-managers for investment management, or so-called "implemented consulting" where decisions on investment strategy or choice of investment managers are delegated to a specialist consultant who receives a fee (negotiated to be fair in relation to the service provided and value added) for carrying out these responsibilities for the Fund.

Delegation will also include the use of sub-committees of the Trustee Board. In our experience, almost all Funds of any size operate through a number of sub-committees, made up of members of the Board. (Some Funds co-opt independent experts onto the Board or the sub-committees to enhance their mix of skills.)

To enhance the effectiveness of decision making, the Trustees should consider whether there are matters that can, routinely or on ad-hoc basis, be delegated to the sub-committees without being referred back to the Board for ratification. This requires that the sub-committee members are well chosen and have the confidence of their colleagues on the Board

Although there are almost always constraints on their time, Trustees must be prepared to put some effort into the role. This means preparing properly for meetings. Often we see agenda packs of several hun dred pages – it is not realistic for each Trustee to read and absorb every page, so Trustees should discuss and agree among themselves what they can reasonably be expected to do.

Sub-committee members should at least ensure that they are familiar with the material relating to their own committees, when dealt with at Board meetings. Again the Chairperson and the sub-committee chairs should be carefully chosen as people who will apply themselves to the reading and thinking needed.

In preparing for meetings, Trustees should evaluate the issues that will be discussed and note down questions they may have. It is often said that "there are no stupid questions" (certainly if you are well prepared!) – this is where effective use of professional advisors can help, by ensuring that the Trustees have a reasonable grasp of the key issues they are dealing with.

Trustees need to treat each other with respect. They should also be honest about their limitations as a Board, whether arising through lack of time or lack of expertise. Boards should be careful not to bite off more than they can chew – sometimes, simple low-cost and "low governance" strategies will be better than trying to implement complex strategies that the Trustees don't fully understand.

The FSB's PF130 governance circular sets out standards for good Fund governance, and requires that Trustee Boards go through a yearly performance assessment. This is often a self-assessment process – unsurprisingly, Boards are inclined to give themselves high marks! It may be more effective to ask an outsider – not one of the Fund's regular service providers – to carry out an appraisal of the Board from time to time.

We believe that Trustees who try to adopt the principles set out above will have a better chance of making their Funds truly effective. In the questions that follow, we ask the investment managers their own views on better decision-making, not just in their own businesses but by Trustee Boards too. There are some useful and thought-provoking comments, which we hope you will read and benefit from.

Erich Potgieter and
Christina van der Breggen,
Willis Towers Watson
August 2016

THEME:

BETTER INVESTMENT DECISION-MAKING

We consider the factors that make for effective decision-making and the effective implementation of investment ideas, by retirement fund Trustees as well as by professional investment managers. The questions that we put to the fund managers focus mainly on the latter, whereas the written material by Willis Towers Watson will focus mainly on Trustee decision-making.

Questions for fund managers:

1. In your experience, what are the factors that lead to good decision-making by Trustees? What are the problems that impede effective Trustee decision-making? How could these problems be addressed?

Kirshni Totaram, global head of institutional business at CORONATION FUND MANAGERS says in the company's view, boards of trustees who are supported by a strong governance framework achieve the best results. They have defined responsibilities and accountabilities, and are guided by metrics that determine the efficacy of their decisions.

"Crucially, the board needs to be clear about its main aim and goals. We find that trustees who are equipped with the necessary skills can effectively implement defined goals, and that boards that include trustees with financial knowledge and experience are more likely to make sound decisions.

"Trustees who do not have well-defined responsibilities or accountabilities face greater challenges.

"Also, a lack of sufficient knowledge and experience on pension and investment matters among board members can be an impediment. Unfortunately, sometimes boards do not have a sufficient budget to bring in a suitable number of independent trustees with these required skills.

"Another challenge is the high turnover of trustees. With trustee elections taking place every three years, it is sometimes difficult to ensure continuity in decision-making.

"Lastly, problems arise when the measurement metrics for trustee decisions are not well-defined or properly implemented from the outset," says Totaram.

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She contends that a strong governance framework should be established for each board of trustees. The framework should clearly define the roles, responsibilities and accountabilities of each trustee, and establish measurement metrics that are appropriate for the fund. New trustees should also receive adequate training following their appointment.

"In our experience, the most effective boards include a sufficient number of independent trustees who have the required expertise and knowledge. This also allows for greater continuity in the decision-making process. Specific roles and responsibilities can be delegated to experienced service providers," says Totaram.

Shaun Levitan, executive director and co-founder of COLOURFIELD, says good decision-making starts with identifying the goals of the retirement fund. After all, a retirement fund exists to provide for a good retirement. The challenge that impedes effective decisions is when the roadmap to a good retirement has not been properly defined and too much focus is placed on the wrong decisions.

"We ask our clients, what good is beating the benchmark if you don't reach your goals? Therefore, Trustees should make sure that the targets they set their managers are appropriate and goal orientated," says Levitan.

Janina Slawski, director of marketing and distribution at OLD MUTUAL INVESTMENT GROUP says trustees make good decisions when they are informed, have the right information in front of them and are guided by trusted advisers who can guide and inform their decision making. Trustees need to be asking questions and challenging information presented to them, rather than treating decision making as a "tick box" exercise where they all go along with the majority or blindly accept proposals put in front of them.

Trustees should always be presented with sufficient background information, in an accessible and understandable format, that will enable them to understand the issues and be able to express an opinion on them.

In term of the problems that impede effective Trustee decision-making, Trustees often do not come from backgrounds that give them deep understanding of retirement fund issues – they have their day jobs to do and being on a trustee board is a part-time job that they take on in addition to their full time jobs. They may be voted onto the board as a member trustee and take on the role only for a three year period before they stand down and another set of member trustees takes over. Getting familiar with retirement fund issues takes time, especially since there will often only be 4 or less trustee meetings in a year. New trustees may just be starting to get on top of issues and being able to challenge and add value to discussions as they reach the end of their term with a new set of trustees potentially about to join.

To address these challenges, it is critical that new trustees go through an on-boarding exercise that introduces them to retirement fund legislation, their responsibilities, and their fund's details. This will give them the background to be able to make good decisions. They should also have training on more technical aspects, such as investments, if their background means they are not familiar with these concepts.

Independent Trustees who do have background on these issues, and who are familiar with retirement fund issues specifically, can be invaluable in providing insight and challenge beyond what can be brought by a "part time" Trustee. Extending the period that Trustees remain on the board, encouraging Trustees to stand for re-elections and staggering the term of office of member Trustees can all assist in creating a constant representation of Trustees with sufficient background and experience on the board to add to decision making.

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Questions for fund managers:

Natalie Phillips, head of SA institutional at INVESTEC ASSET MANAGEMENT says the starting point for good decision-making by trustees is to ensure that they have a proper governance structure in place. A professional trustee board, with a number of independent representatives who have proven industry skills, can add value where specialist skills are required for certain decision making. This is especially important in a defined contribution environment, where funds have up to half of the trustee board comprise of member representatives who don't necessarily have investment, actuarial or administration skills given their day jobs, and who are therefore not necessarily as well equipped to make effective decisions relating to their retirement funds.

Also, high turnover on trustee boards can delay decision-making on important strategic matters, which can result in a significant opportunity cost for a Fund and ultimately its members. The appointment of independent, specialist investment advisors and administrators who follow global, best-of-breed practice, can also allow for more informed and balanced outcomes.

Monei Pudumo-Roos, executive director & head of institutional sales at PRESCIENT INVESTMENT MANAGEMENT says the main factor that will lead to good decision making by Trustees is when there is a clear understanding by the trustees that they represent the members of the fund and no one else. Good decisions are made on behalf of the fund when trustees act in the best interest of the members. The fund can only be successful if members' needs are well understood and catered for.

"Trustees tend to make better decisions when they are sufficiently informed. This can be achieved by on-going trustee training and be aware of the constant regulation changes and the environment.

"We are all aware that it is the norm for most South African Funds, especially Retirement Funds, to rely on outsourced advice. It is therefore highly important that advisors assist the Trustees to reach reasonably and sufficiently informed and non-conflicted decisions.

"It is important that Trustees can master the art of being able to allocate capital to sustainable returns and at the same time be mindful of impactful investing. Impactful investing takes many shapes and forms such as shareholder activism at board level and allocating capital to developing the infrastructure and social needs of South Africa. Key areas of the market where trustees could consider investing are green and clean energy projects as well as infrastructure assets.

"Regulation 28 certainly makes room for these types of asset classes which can provide long-term inflation-linked returns to their members with low volatility. Members will benefit from uncorrelated inflation-linked returns and at the same time will make a positive contribution to society and our country.

"Finally, we believe that a good Board of Trustees takes account of all relevant factors and manages conflicts of interest. Effective governance is essential, as this factor will assist the Board in archiving efficiency and gain trust from the members. It is important that decisions are taken collectively and again, in the best interest of the members. In this environment, members' assets are well looked after, preserved and grown over time. Personal or individual satisfaction of the Trustees is a by-product of a well-run Fund.

"A Board of Trustees becomes successful when there is not only good but also effective communication between the Board and members. These can differ in many ways depending on the various dynamics. In this way, there is transparency and trust is built between the Board of Trustees and members as they will also feel empowered," says Roos.

Charles Booth, portfolio manager at TRUFFLE says trustees must understand managers processes well and ensue that the different styles are well diversified by appointing complimentary managers.

Trustees must have a good understanding of the asset management business particularly relating to different manager styles. Training and experience are essential for effective manager selection.

Nick Curtin, investor relationship manager: institutional at FOORD ASSET MANAGEMENT says the most important factor is how the usually limited governance budget is allocated. The Board's focus should be on key long-term strategic decisions with underlying operational decision-making delegated to those in the value chain best placed to make them. Continuity of board composition and service providers is also key to maintaining the long-term perspective that is so crucial to achieving desirable long-term investment outcomes. Lastly, an over-reliance on the various agents in the value chain can also lead to decisions that are often not in the members' best interests. Trustees should be ever mindful of the lurking agent-principal problem. In our experience, investors with uncluttered governance structures have achieved the best long-term results. Keep it simple.

Tamryn Lamb, joint head of institutional client services at ALLAN GRAY says factors that lead to good decision-making by trustees include taking a long-term approach to manager selection and asset allocation decisions, having the right blend of skills and experience on the trustee board and establishing a framework to evaluate the effectiveness of the decision-making process.

Typical problems that can impede effective trustee decision-making are turnover among the trustee board and volatility in markets. A high level of turnover can be an impediment, particularly if the rationale for key decisions isn't clearly documented. For example, if an asset manager underperforms, it can be hard for the trustees to recall all the reasons why that manager was appointed. If key decisions or changes are documented clearly, however, it can be easier for successive generations of decision makers to assess whether these are panning out as expected or were incorrect – thus improving the quality of the overall decision making process.

David Green, chief investment officer at HOLLARD INVESTMENTS says one key contributor to sound decision-making is realistic return expectations. Over time, equities generally return about 13% a year or 6-7% above inflation. Expecting more, especially at a time when valuations are already high, carries the risk that trustees could make some poor choices.

Distinguishing between an episode and an event is also helpful. Episodes refer to periods of expensiveness or cheapness which may last for months or years while sudden events affect short-term valuations. Nenegate and Brexit were events with immediate market impact. Selling shares in the immediate aftermath ensured a loss. When an event occurs, it is in the interest of members that you stay calm and ride it out.

Understanding of valuation methods is also beneficial; for example, a rudimentary grasp of P/E ratios for shares and yields for fixed-interest products.

Trustee scepticism is another asset. Hero worship of a rock-star asset manager rarely translates into heroic fund performance.

Brad Preston, CIO: Listed Investments at MERGENCE INVESTMENT MANAGERS says a well-balanced board with a strong commitment to look after the best interests of members and pensioners is a good foundation. This fiduciary commitment and focus is vital as is:.

Ensuring that decision making is supported by good and unbiased research and information.

The use of reputable independent advisors / consultants with no conflicts of interests is advisable.

Trustees should not be compromised by their other affiliations, be it workers' union and/or employer interests as the case may be. Furthermore, using their positions to influence industry players for some or other benefit could be conflicting and compromising. If trustees act thus, decisions will be sub-optimal, biased, serve certain interests, and may not always be in the best interests of members and pensioners.

Shalin Bhagwan, head of fixed income at ASHBURTON INVESTMENTS says in many instances, trustee decisions are arrived at after guidance from an appointed investment advisory firm who, in turn, tend to base their advice around a ''house view''.

"Larger pension funds have the resources to seek out multiple viewpoints from different advisory firms as well as to research new investment trends and implementation approaches. This means that these funds benefit from diverse viewpoints. When coupled with a governance model (e.g. a dedicated investment sub-committee) that affords the trustees time to dig deeper into the pros and cons of important asset allocation and manager selection decisions, then decision making can be greatly enhanced. Resources aside, it is good practice for trustees to seek out alternate viewpoints.

"This could be done every three years, say, as part of the normal review of an adviser's appointment by asking alternate providers to present how and why their advice to the pension fund may differ. Importantly these alternate proposals should not be generic but rather they should be based on the fund's specific asset allocation and manager structure.

"In addition, advisers could be asked to present a list of alternate managers for each incumbent asset manager and the trustees could engage with the alternate manager, at no cost, to understand the pros and cons of using their incumbent manager. At the very least, such an exercise could be used to ensure that manager fees remain competitive," says Bhagwan.

Anet Ahern, CEO at PSG ASSET MANAGEMENT says trustee decision making is not very different from investment team decision making. In essence, goals need to be clear, the philosophy of managing the portfolio has to be clear, time horizons have to be strongly emphasized, the decision making framework has to be a valid one (there has to be evidence that it works over time) and it must be consistently applied.

A big danger for trustees is to react to shorter-term events or relative performance, often despite the overall portfolio performance still being well on track. In short, define the goal, figure out how to get there and then keep all eyes on the goal. Most retirement funds have a long time horizon and often trustee behaviour can be inconsistent with that, especially if the process is not clear.

Samantha Pauwels, portfolio manager at CANNON ASSET MANAGERS says having knowledgeable and educated trustees certainly helps in generating good decision making. A board with experienced and financially literate trustees who are held accountable is equally important to ensure good decision making. It is important to have independent trustees, in order to ensure some form of impartiality in the decisions taken. Lack of experience or knowledge, misaligned incentives, inertia, peer or industry influence, as well as behavioural biases such as anchoring and familiarity are all potential problems that impede effective trustee decision making.

These issues should be addressed through continuous education and research, a regular review of past decisions, regular voting of trustees and independent assessment of the group of trustees.

Reena Joseph, institutional business development at AEON INVESTMENT MANAGEMENT says many trustees make decisions based on the information provided to them by their consultants, good decision-making by trustees can be achieved if consultants are transparent and provide factual information in an unbiased manner. Experienced trustees will be able to critically assess and evaluate the information provided to them and be able to make good decisions for their funds.

Among the problems facing trustees are biases and prejudices of consultants, time constraints to fulfil trustee duties, and difficulty understanding investment jargon. The default and easy decision is for trustees and consultants to go for the safe decision of "big is best" and "big is safe".

These biases and prejudices can be addressed by trustees being aware of conflicts of interests of all service providers, learning directly from predecessors and by being at the forefront of investment industry developments. Often institutional memory and processes are lost when new trustees join.

Asset consultants should be obliged to publically disclose every six months the historical composition, returns and relevant peer group rank of each fund manager that is held by a retirement fund that they consult to.

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Questions for fund managers:

2. In an asset management firm, are there different approaches to investment decision- making that have the potential to be effective? What is your own preferred approach, and how has this evolved over time?

Karl Leinberger, chief investment officer at CORONATION FUND MANAGERS does not think that there is any single decision-making model that is the holy grail for fund management.

"There are many differing models that have been successfully employed over long periods of time.

"In the recruitment process at Coronation, we look for strong, independently-minded people that want to be part of a team. This is not a culture that is easy to get right, but we believe that it is one that results in more robust outcomes in client portfolios. We find that teams that make decisions without individual accountability suffer from group-think and decisions that lack intellectual courage.

"At the other extreme, individuals who work in a vacuum miss out on the benefits that come from leveraging off other skilled individuals with a different view on the matter at hand," says Leinberger.

Natalie Phillips, head of SA institutional at INVESTEC ASSET MANAGEMENT says the company has invested in a well-resourced globally integrated team of investment professionals across seven focussed capabilities. Open debate across asset classes and geographies is encouraged, as we believe critical analysis and information sharing ultimately leads to the best-quality investment decisions and outcomes for our clients.

Nevertheless, as a multi-specialist investment business, each investment capability operates independently with its own strategy leaders and aligned teams of analysts and portfolio managers; they are encouraged to stay true to their investment philosophy and process, which ultimately results in diverse portfolios that are aligned to their investment objectives.

"They are not trying to chase the best returns in the market; rather, each of our strategies has a very clear articulated process and objective which guides investment decision-making. We believe this discipline delivers the best risk-adjusted outcomes over time.

"Having these independent teams also allows for a speedier and more effective decision-making process rather than the cumbersome house-view approach, so that teams can implement their ideas into client portfolios on a nimble basis and curtail 'implementation risk'.

"Finally, we believe portfolio managers should be completely focussed on managing money and not tasked with the difficulties of having to run a business," says Phillips.

Guy Toms, chief investment strategist and head of interest bearing at PRESCIENT INVESTMENT MANAGEMENT says the company's approach to decision making is methodical and quantitative in nature and starts with the risk benchmark. Our process has remained constant over time.

"At Prescient we define risk as the probability of not meeting the client's investment objectives. To ensure that the client objectives are met, it is important that we understand what these investment objectives are. The core of our philosophy is to maximise returns with emphasis on benchmark or capital preservation and the management of downside risk. Our challenge is therefore to construct a portfolio with superior risk/return achievements relative to the benchmark against which it is measured.

"Prescient's process starts by defining a risk benchmark as well as performance target. The risk benchmark describes the minimum return under adverse market conditions. The portfolio will be structured, i.e. position deviation from the benchmark will match the risk tolerance to ensure that at worst the return will meet the risk or minimum return benchmark. At the same time, should the market condition favour the position direction, the client return will be maximised given the risk tolerance or benchmark.

"The portfolio is managed actively and a number of quantitative techniques are used to generate returns, including duration management, yield enhancements via credit exposure and risk management strategies, where these strategies are designed to provide downside protection. Overweight positions will be taken in the securities offering best risk compensation and underweights will be in securities with poor risk compensation. Importantly, the size of the position deviation will be determined by the clients risk tolerance with smaller deviation taken where risk constraints are tight and vice versa.

"Underpinning the process is a direct focus on risk. Risk is quantified in the day to day management of the portfolio. Prescient will calculate the outcome of the portfolio under different interest rate scenarios. We can thus ensure that the portfolio return will be maximised should Prescient's view be correct, however, the positions are of such a magnitude that underperformance is limited to match the client's risk benchmark should rates move against us. This can be specifically tailored to the client's needs, i.e. by setting a risk benchmark and ensuring that position size is limited so that the portfolio always delivers to the client's expectation and above," says Toms.

Charles Booth, portfolio manager at TRUFFLE says the company believes that the most important investment decision to make is to get the entry price of an asset purchase right. If this is not done effectively the portfolio faces the potential of a permanent loss of capital which can never be recouped with future good performance.

After getting the entry price right the manager must have the patience to wait until the full value of the asset is realised. The manager must appreciate that this could in some circumstances take some time.

"Our approach to investing has evolved over time to deemphasise the impact of macro forecasting as it has been shown to be unrewarding in the long run. We also focus more on the long term as short term market moves have a high element of randomness in them," says Booth.

Tamryn Lamb, joint head of institutional client services at ALLAN GRAY says the company's investment philosophy is valuation oriented looking for opportunities that are trading at prices below what it thinks they are worth.

"Often these are uncovered in areas of the market which are overlooked by others or where sentiment is negative. To be successful in this approach, we believe investment decisions are best made by individuals, and not committees. These individuals should be independent minded and have the confidence – based on the strength of their research - to be different and to take full responsibility for these decisions.

"We also believe that clients benefit from a spread of investment ideas from a number of decision makers. Portfolio managers are therefore not assigned to manage a single portfolio. Instead we notionally pool all client funds into a consolidated portfolio, which is split among specialist portfolio managers. In this way, clients benefit from the blended view of the best ideas of all our portfolio managers and it reduces the key-man risk for specific individuals," says Lamb.

Lara Warburton, MD at INTEGRAL ASSET MANAGEMENT says typically, large asset management firms have strict criteria to ensure managers sing from the same hymn sheet. Constraints include approved stock buy lists and specific tolerances for allocations relative to a benchmark. Boutique firms typically differentiate themselves via investment style.

"Integral's objective is real portfolio growth (not relative to benchmark) over investment cycles. Our style is neither value nor growth. We use both a top-down (macro) and bottom-up (stock selection) approach.

"We won't hold a position lower than 2% and believe a 7% position starts to add risk and requires careful monitoring. Sector diversification is critical to risk management and we feel comfortable with high cash positions in times of market stress.

"Our approach typically suits investors who are creating and preserving wealth for the long term and institutions that recognise the importance of conviction investing and the ability to limit losses when markets fall, preserving a larger capital base from which to grow when markets rise," says Warburton.

Shaun Levitan, executive director and co-founder of COLOURFIELD, says the company has continued to focus on the goals of clients.

"We constantly review and measure whether they are on track to meet these goals and make changes to the portfolios we manage on their behalf. This requires constant and clear communication back to the trustees in a manner that can be clearly understood.

"Globally, the traditional approach is to focus on a 'pot of cash' at retirement. This does not provide members with the necessary information to make informed decisions with regards to how on track they are for their retirement.

"We seek to maximise the likelihood that members have sufficient assets accumulated at the point of retirement that will enable them to receive income each month sufficient to meet their expenses," says Levitan.

Justin Floor, portfolio manager at KAGISO ASSET MANAGEMENT says the company tries its best to focus only on objective factors that are likely to affect future cash flows when making investment decisions.

"In the process, we try to avoid overdue emphasis on macroeconomic and other high frequency data and are careful not to be influenced by market sentiment. In addition, while taking into consideration team views and engaging in robust debate with investment team members, we practice individual decision-making and accountability. These two approaches are underlined by a long-term perspective and – as already referred to above - emotional detachment," says Floor.

Patrice Rassou, head of equities at SANLAM INVESTMENTS says asset management firms usually follow a narrow, star portfolio manager approach on the one hand or, on the other end of the spectrum, follow a team-based multi-counsellor approach.

"We believe collective wisdom can best solve complex problems. As evidenced by the recent Brexit episode where political experts got it wrong, we believe that a team-based approach best solves cognition problems. Since investment professionals are also prone to the psychological pitfalls so often attributed to the man/woman in the street, we believe a team approach allows us to aggregate diverse opinions, drawing off different skill sets and experiences to solve real world, complex problems in conditions of uncertainty and under time pressure, when stakes are high.

"Over time, our team based approach has been solidified by recruiting individuals who can contribute to the collective while being able to think independently. Hence the need for diversity of thinking in teams can be reconciled with better outcomes and innovative ways to solve complex investment problems," says Rassou.

David Green chief investment at HOLLARD INVESTMENTS says Early in my career, I favoured quantitative analysis and technical optimisation tools; essentially, number-crunching until the data delivered a supposedly 'correct' call.

Today I prefer a balanced 'four R's approach' based on regime, returns, risk and relative positioning.

Regime entails an understanding of the economic environment – where money is flowing.

Returns is focus on expected returns based on valuations, tempered by understanding that some valuations remain bizarre for extended periods, often influenced by the regime; for example, the global search for yield and its effect on asset pricing.

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Full Discretion Global Balanced - June 2016

Willis Towers Watson

Global Balanced	Type	Market Value (R'm)	3 month	Rank	12 month	Rank	3 year p.a.	Rank	5 year p.a.	Rank	10 year p.a.	Rank
27four CPI+5 Fund	Multi-Mgr	1,116	1.2%	17	7.2%	16	13.5%	11	N/A		N/A	
ABSA AM Global Balanced	Pooled	6,750	1.3%	15	6.1%	24	11.4%	26	12.8%	25	N/A	
Allan Gray Global Balanced	Segregated	77,996	1.6%	12	16.1%	2	14.2%	5	15.9%	5	14.3%	4
Aylett Balanced Prescient Fund	Pooled	258	2.9%	3	10.0%	3	N/A		N/A		N/A	
Cadiz Global Balanced (S)	Segregated	205	1.8%	8	3.4%	31	7.9%	30	10.5%	27	10.3%	20
Coronation Full Discretion	Segregated	49,568	1.1%	19	6.6%	20	13.2%	13	15.7%	8	14.6%	3
Efficient Balanced Fund	Pooled	285	1.6%	13	4.0%	30	9.9%	28	12.6%	26	N/A	
Foord Global Balanced - Moderate	Segregated	74,035	0.1%	29	6.8%	19	12.4%	20	16.2%	4	14.2%	6
Investec Balanced	Pooled	15,464	-0.1%	31	7.3%	15	15.7%	2	15.7%	7	15.4%	1
Investec Opportunity	Pooled	51,242	1.7%	10	17.6%	1	14.1%	7	15.6%	9	14.2%	5
Investec Segregated Full Discretion	Segregated	67,652	0.1%	30	7.5%	13	15.7%	1	15.6%	10	15.3%	2
Investment Solutions Performer	Multi-Mgr	88,764	1.0%	23	9.3%	4	13.7%	10	15.8%	6	13.9%	7
Investment Solutions Spectrum	Multi-Mgr	2,115	1.1%	22	7.0%	18	11.9%	24	14.1%	18	12.7%	12
Kagiso Global Balanced	Segregated	1,073	3.3%	2	6.3%	22	10.2%	27	N/A		N/A	
MMI Global Balanced	Segregated	4,614	1.2%	18	8.0%	12	13.2%	12	14.0%	19	12.0%	16
Momentum MoM Classic Factor 6	Multi-Mgr	333	1.2%	16	8.4%	6	14.2%	6	15.6%	11	13.2%	10
Momentum MoM Enhanced Factor 6	Multi-Mgr	5,158	1.1%	20	8.3%	7	14.0%	8	15.4%	12	13.2%	9
Nedgroup XS Diversified FOFs	Multi-Mgr	2,640	0.8%	25	6.5%	21	12.7%	15	13.6%	23	N/A	
Oasis Full Discretion	Segregated	1,211	1.9%	6	8.0%	11	12.4%	19	14.5%	16	12.0%	17
OM Multi-Managers Inflation Plus 5-7%	Multi-Mgr	5,031	2.3%	5	8.2%	8	14.4%	4	17.2%	2	N/A	
OM Multi-Managers Managed Fund	Multi-Mgr	2,698	0.8%	26	6.3%	23	12.6%	17	15.3%	13	N/A	
OMIG MacroSol'ns Profile Balanced	Pooled	1,205	1.6%	11	5.5%	26	12.4%	18	13.8%	20	12.0%	15
OMIG MacroSolutions Full Disc.	Segregated	3,924	1.8%	7	5.3%	27	12.3%	21	13.7%	22	12.4%	13
Prescient Global Balanced	Segregated	453	0.6%	28	-1.2%	32	9.6%	29	9.6%	28	N/A	
Prudential Global Balanced	Segregated	29,460	1.3%	14	7.5%	14	13.2%	14	15.1%	15	13.6%	8
PSG Balanced Fund	Pooled	5,300	-0.2%	32	5.1%	28	13.9%	9	15.2%	14	12.8%	11
RECM Balanced Full Discretion	Segregated	296	3.5%	1	-2.1%	33	2.0%	31	4.8%	29	8.5%	21
REZCO Value Trend Balanced Fund	Pooled	7,730	-1.5%	33	5.0%	29	12.2%	22	19.3%	1	N/A	
Sanlam SIM Unique	Pooled	14,137	1.7%	9	8.0%	10	12.6%	16	13.8%	21	12.0%	14
Sanlam SMM 60	Multi-Mgr	396	2.4%	4	5.9%	25	11.9%	23	12.8%	24	11.7%	19
STANLIB Full Discretion	Segregated	2,822	0.8%	24	7.1%	17	11.5%	25	14.2%	17	11.8%	18
STANLIB Multi-Manager Balanced	Multi-Mgr	4,855	0.8%	27	8.5%	5	N/A		N/A		N/A	
Sygnia Signature 70 Fund	Multi-Mgr	5,991	1.1%	21	8.1%	9	15.6%	3	16.4%	3	N/A	
Total		534,778		33		33		31		29		21
Median			1.2%		7.1%		12.6%		15.1%		12.8%	
Willis Towers Watson Global Balanced Benchmark			1.2%		9.0%		13.8%		15.1%		12.6%	
Inflation (CPI)			1.6%		6.3%		5.9%		5.7%		6.3%	

Notes
1. Market Value is the current value of the assets on which the performance figures have been calculated.
2. 3-year, 5-year and 10-year returns are annualised. All returns are gross, i.e. before deduction of tax and fees.
3. "Median" is the return for the manager or product occupying the mid-ranking position in the table.
4. Benchmark returns are the gross returns that would be achieved by a balanced fund passively invested in the various asset classes in line with the stated risk profile and exposures set by Willis Towers Watson.
5. Funds in the Balanced category have medium-risk mandates with equity exposure of about 65%.
6. Funds in the Aggressive category have higher-risk mandates with equity exposure of about 70%.

Source: Willis Towers Watson

SPECIAL PROJECTS
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Asset Manager Review

Willis Towers Watson

2. In an asset management firm, are there different approaches to investment decision- making that have the potential to be effective? What is your own preferred approach, and how has this evolved over time?

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Risk entails vigilance and sensitivity to any over-exposure. It's not a number or standard deviation indicator. Relative positioning is a reminder that no asset manager can monopolise investment wisdom, so check your weightings against industry-wide portfolio allocations. Myopic faith in one's own models is no way to achieve balance.

The current approach is summed up in three words … judgment, judgment, judgment.

Samantha Pauwels, portfolio manager at CANNON ASSET MANAGERS says yes, there are a number of approaches to investment decision making that have the potential to be effective at some point in time. Of late, multi-factor models and quant-based investing has gained popularity, along with momentum investing, following the great performance of a number of large listed shares. Growth investing has also performed well over the past number of years, on the back of this.

"We follow a value investing approach. Our stock selection process is based on the underlying principle that significant price inefficiencies lie at the stock level and that a disciplined research process, based on a fundamental approach to stock valuation, gives us an information advantage over other market participants. While this approach has struggled to produce outperformance in the last few years, it has proven to be a superior long-term investment approach, delivering great returns for the disciplined value investor. We have maintained our philosophy and process – retaining consistency in our application and avoiding emotional biases."

Asief Mohamed, chief investment officer at AEON INVESTMENT MANAGEMENT says decision-making processes by investment professionals or teams probably result in the most acrimonious fights within investment management firms. In general, investment professionals believe that they are cleverer than their colleagues in the team or firm. Egos such as this contribute to dysfunctional teams.

Unanimous consensus team-based decision-making in an investment environment is unrealistic as one expects to get divergent views. If a team member strongly disagrees with the consensus view then he or she should in writing provide a justification for his or her view.

Generally the experience in a team environment of investment professionals is that they want to differ to get free call option on the decision but are seldom prepared to justify a dissenting view and put it in writing. With hindsight, if they are right, they say "I told you so" but remain quiet if they are wrong.

Teams can operate successfully provided team members are given the opportunity to present their views. A successful team however needs good record and documentation of decisions, including dissenting views. Regular reviews of decisions should be revisited to establish if the investment case set out in fact led to the correct decision, and if not, why not.

Nick Curtin, investor relationship manager: institutional at FOORD ASSET MANAGEMENT says given the importance of accountability to the alignment of interests between fund managers and their investors, the company is strongly of the view that individuals make better investment decisions than committees.

"The old maxim that a camel is a horse designed by committee has relevance here. It is also important to balance this accountability pillar and mitigate against 'key man risk' by ensuring that there is a good degree of continuity and diversity of thought built into the portfolio management process.

"Since 2009, Foord has made use of a multiple counsellor approach whereby every account is split between three and five portfolio managers, each of whom has full discretion on his or her allocation. This ensures that accountability rests with the relevant individual at the same as ensuring diversity of thought and continuity across the aggregate portfolio. It also results in dynamic risk governance in that investment ideas with the highest consensus tend to have a higher weight in the aggregate portfolio than those where the conviction level across the multiple-counsellors is divergent."

Valdon Theron, head of institutional business at PRUDENTIAL says the company follows a team-based process where specialist teams are responsible for key investment decisions including tactical asset allocation and stock selection within equity, bonds and property. In keeping with the fundamental law of active management (given some skill, apply it as often as possible), our approach seeks to extract outperformance from independent stock picking in the various assets classes rather than a few big macro calls.

"Our process actively seeks to mitigate against the recognised emotional aspect to investment decision-making. One such way is to increase our positions in assets as they get cheaper, rather than to try and time the bottom of the market. The bottom, if you can identify it, is naturally the point of maximum pessimism on an asset and allocating maximum capital at this point is psychologically extremely difficult. To our minds, accumulating cheap assets through an incremental approach is somewhat easier psychologically."

Brian du Plessis, head of distribution at REZCO ASSET MANAGEMENT says there are certainly different approaches that have the ability to be effective. It is precisely these differences that create the sought after diversification that assists investors when blending funds within a portfolio.

"We always remain true to our investment philosophy. This may evolve over time, but we will never stray from our core philosophy of preserving capital and creating wealth.

"Our objective is to preserve capital during times of market weakness and to outperform the overall index during periods that are positive for equities. The strategy we employ is to acquire interests in well managed companies with we believe will have sustainable earnings growth, at a reasonable price. In addition to this, a combination of the bottom-up and top-down strategies is utilised. Fund managers cannot ignore the environment in which a company operates, nor can they assume that just because a particular sector is doing well that all companies therein will perform as well. Stock picking is both an art and a science.

"When managing a fund, we believe it is important for an individual to be accountable for investment decisions and the resultant performance," says Du Plessis.

3. What obstacles can prevent effective investment decisions, and effective implementation of these decisions, in asset management firms?

Justin Floor, portfolio manager at KAGISO ASSET MANAGEMENT says some factors that can hinder effective investment decision making and implementation include group or committee decision making; reacting emotionally to short-term events and behavioural traps such as anchoring (an example is extrapolating future expectations from recent history). Others are short-termism (the excessive focus on short-term results at the expense of the long-term reality) and the danger of being overwhelmed by 'noise,' such as news flow and macroeconomic data, and therefore not being able to isolate the essence of what matters when making an investment decision.

THEME:
BETTER INVESTMENT DECISION-MAKING

We consider the factors that make for effective decision-making and the effective implementation of investment ideas, by retirement fund Trustees as well as by professional investment managers. The questions that we put to the fund managers focus mainly on the latter, whereas the written material by Willis Towers Watson will focus mainly on Trustee decision-making.

Questions for fund managers:

Hywel George, director of investments at OLD MUTUAL INVESTMENT GROUP says to be clear it is easier to get asset management wrong than it is to get it right.

He says to fail, obstacles would include:

Poorly aligned incentive schemes, where the fund manager is not exactly aligned with the client outcome; by quantum of alpha desired over the time frame envisaged, thereby taking on the most appropriate risk profile.

Corporate distractions. These can be many, and occur regardless of whether the fund manager is operating in an owner-managed boutique or a large corporate. Running one's own business can be hugely distracting (handling outside providers, office space, HR issues, legal tussles, compliance monitoring, marketing etc). A corporate can be heavy-handed with a fund manager, and often focuses too much on near-term outcomes.

Too many assets. The curse of success can also be caused by misalignment with client outcomes, with incentives more geared to greater Assets Under Management, than successful investment performance on existing assets. Once the 55% success/ 45% fail golden rule is violated (you own too much of a stock to be able to sell it having made a mistake), performance almost never recovers – until assets again fall to a size commensurate with investment success

A lack of awareness of risk clusters embedded in portfolios. This can be caused by poor systems, and a binary, traditional approach to stock picking (often seen in pure value managers) that cause risk-blind spots. The fund manager believes he is taking a pure stock-picking approach, but in reality there are large, unintended bets embedded in his portfolio exposing him to currency risk, commodity exposure, large or small cap bias or any number of macroeconomic or market related factors.

Raphael Nkomo, CIO at PRESCIENT INVESTMENT MANAGEMENT says the first major obstacle to effective investment decisions is the fear of underperformance relative to peers. It is the fear of being wrong, or losing money when most are making money. In general it is the possibility of failure, the anticipation of failure that paralyses action and becomes the primary reason for failure and ineffective investment decision making.

The second major obstacle to effective investment decisions is the fear of criticism by senior management. It is also the fear of sounding dumb or looking foolish against peers. This is triggered by the desire to be liked and approved of by others and to demonstrate self-worth. Investment managers are sometime afraid to ask someone for help when face with difficult tasks as this might give the impression that they don't master the subject very well. As a result of these fears of rejection and criticism, they play it safe and settle for far less than they are truly capable.

Thirdly, managing change is difficult. Execution often involves change—in structure, incentives, controls, people, objectives, responsibilities. As we know, change can be threatening. The importance of managing change well is clearly important for effective implementation of investment decisions. The inability to manage change and reduce resistance to new implementation decisions or actions can spell disaster for execution efforts.

Charles Booth, portfolio manager at TRUFFLE says the most important obstacle to effective decision making is to deviate from one's process particularly when the process is not working as happens from time to time.

Karl Leinberger, chief investment officer at CORONATION FUND MANAGERS says there are a great number of structural impediments to good decision making in the investment industry. But the greatest, by far, is an inappropriate time horizon.

"Managing investments is, by definition, a multi-decade endeavour. It is the client's experience over decades, not years, that matters. In addition to this, the market or investment performance cycle typically lasts longer than five years.

And yet the vast majority of decisions made in our industry assume that a period of two to three years is meaningful. "A great amount of value is destroyed in our industry from this short-sightedness," says Leinberger.

Nick Curtin, investor relationship manager: institutional at FOORD ASSET MANAGEMENT says organisational structure is crucial. Firms with an asset gathering business model will always be at risk of making investment decisions that might not always be in the investor's best interests.

Product proliferation and chasing the latest marketing fad simply to gain assets under management is, in our view, not in investor's interests.

It is essential that there is a very clear alignment of interest mechanism between the member and the individuals managing the portfolio.

The organisational alignment of the core investment decision makers, the marketing and distribution team and operations is critical. Too often there is a misalignment between the long-term needs of investors and the often short-term term focus of the typical multi-service corporate.

Tamryn Lamb, joint head of institutional client services at ALLAN GRAY says there are many obstacles that can prevent effective investment decision making, and effective implementation of these decisions.

The most important of these is whether the firm is structured to align its interests with those of its clients, has continuity of ownership, a long-term focus and allows investment decision makers the freedom to focus on generating outperformance for clients.

If the firm is not structured in this way, investment decision makers might be incentivised to grow assets at the expense of performance, may be distracted by other responsibilities and may capitulate – at the wrong point in the investment cycle – under pressure from stakeholders with shorter time horizons.

Anet Ahern, CEO at PSG ASSET MANAGEMENT says at the root of any investment process lies the belief system of the team. If this is not congruent with the process, it will not work and inappropriate debates will constantly steal research and thinking time.

The beliefs feed into the investment philosophy, which forms the basis of the decision framework. Provided this is in place, and properly communicated to clients, the process will be given time to work – and the best processes need time.

A big risk to the investment decision making process is when the fundamental model is constantly questioned (or particularly at times when short-term performance is lagging), and the investment team flip flops between different frameworks.

"For example, if a very active manager is forced by a leader to become highly benchmark cognisant after an uncomfortable period of relative underperformance. This has seen many an asset management firm do almost irreparable damage to their long term track record," says Ahern.

She says the best way to describe the obstacles comes from Warren Buffet:

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insight, or inside information. What's needed is a sound intellectual framework for decisions and the ability to keep emotions from corroding that framework".

Jay Vomacka, senior portfolio manager at AEON INVESTMENT MANAGEMENT says the key obstacle is the effective implementation of a strategy via an amicable team with similar culture and values. This can often be underestimated as by nature, people differ. If that difference is vast yet both individuals are strong willed, it can cause friction in the team dynamic. This leads to personal battles overriding the company aim of generating outperformance and hence the strategy is not implemented with consistency and discipline. Behavioural biases, in general, have quite an effect on investment decision-making and one must be aware of potential biases e.g. herding or overconfidence. This could potentially be compounded with a dysfunctional team dynamic.

Brad Preston, CIO: Listed Investments at MERGENCE INVESTMENT MANAGERS says the company regards institutional career risk or undue pressures as obstacles. This is where fund managers may make a less-than-effective or simply a bad investment decision because they are worried about losing their job or a client on the basis of fund underperformance in the short to medium term. There could thus be a risk of being pressured by short-termism instead of putting clients' long-term investment needs first.

To help avoid this it is essential to structure the asset management firm such that portfolio manager and client interests are aligned and the shareholders and owners of the business have a good understanding of the nature of investments (which can and will underperform from time to time without harming the long-term goal) and a sound appreciation of the investment philosophy and style. In this way the firm will help to avoid a mismatch between the expectations of shareholders, clients and the reality of investing.

Another obstacle is posed where a fund manager may publicly and strongly state their position on an investment, to the extent that - as Larry Summers put it - one starts to feel that their personal capital becomes denominated in the currency of their portfolio holdings, and this may make it hard for them to change their mind later. They may tend to look for information to corroborate their position instead of assessing and reassessing the position objectively.

Lara Warburton of INTEGRAL ASSET MANAGEMENT says the pressure to do something, anything, is often value-depleting.

"Investors pay fees. If they don't see change, they wonder if you're doing your job. It takes courage and conviction to review a portfolio and make no changes; especially as investors can log on and see their portfolios daily.

"Clarity on measurement periods is vital.

"If a long-term investor has a 20-year investment horizon, quarterly measurement and frequent 'manager-hopping' on this basis can be a huge impediment to growth.

"Long-term investment strategies should be periodically assessed, but if a manager holds good stocks that are currently out of favour, a client or trustee should appreciate that short-term underperformance is not always a signal to sell. It may be a signal to buy more.

"Immediate-term market 'noise' is hard to ignore, but can destroy value, as those who sold at the Brexit market bottom will confirm.

"Knee-jerk sensitivity to 'noise' won't grow long-term wealth," says Warburton..

David Green chief investment at HOLLARD INVESTMENTS says The principal obstacles to effective investment decision-making are ego and arrogance – the Masters of the Universe mind-set. Big macro bets with the life-savings of hard-working people should be avoided at all costs. No one knows when the rand is going up or when the gold price will plateau, so don't pretend you do.

Arrogance combined with ignorance is even worse. Decision-making should never be confused with assumption-making. Never assume you know. Put in the work. Do the research. Drill down and double-check. There are no short-cuts to acceptable results.