

TAI – Governance review work

Terms and concepts used

PRINCIPAL TERMS

- **Governance:** The central concept we assess in this review is the governance of the client in the context of meeting its specific mandate and mission
- The governance comprises resources, structures and processes that provide the allocation of resources to get the Fund's mission accomplished
- **Governance is a function of time, expertise and collective effectiveness**
- Good governance is generally characterised by being **innovative, adaptive, collaborative and open**
- We use a benchmark of “best practice” which is the state where
 - the organisation functions in a way that is fully consistent with meeting its mission and benchmarks
 - and compares *very well* by reference to peers in strong performance and enablers of good practice

GOVERNANCE DEFINED AND ASSESSED

- Governance is a finite and scarce resource which needs to be managed and allocated. Increases to governance budget contribute to value creation
- The concept of best practice is not an objectively assessable one and involves judgment
- The assessment of an asset owner resembles the creation of a “mosaic”. That is, **an asset owner's practice is made up of a number of small things that together add up to the “whole”**
- As discussed in research (see in particular [Clark and Urwin, 2007](#)) asset owners succeed best not by mimicking others' best practice, but by building a version of their own best practice and by reinforcing and refining good features
- **WTW and TAI are recognised as market leaders in governance assessments – this deck contains illustrations of our work**

Governance assessment of Asset Owner Organisations

More detailed example – dashboard example

- We have used a model-based approach to assess the quality of the governance below. This approach is based on research (see [Clark & Urwin, 2007](#)) to build a view of the major attributes of your organisation's governance. An interpretation of these ratings is given overleaf.
- The AAA and AA ratings correspond *approximately* to global best practice.

Factor			Client Rating	WTW comments on rating
Operating fundamentals	Mission clarity	Clarity of the mission and the commitment of stakeholders to the mission statement		
	Effective time budget	Resourcing each element in the investment process with an appropriate budget considering impact and required capabilities		
	Strong beliefs	Strong beliefs commanding organisation-wide support that align with goals and inform all investment decision-making		
Organisational fundamentals	Leadership	Leadership, being evident at the Board and Leadership Team level, with the key roles being the Board Chair and CEO		
	Investment executive	The use of highly investment-competent CIO arrangements with clearly specified responsibilities, and accountabilities to the Board		
	Board role/competencies	Board adds value through its numeric skills, capacity for logical thinking, ability to think about risk and probability, engage the Management team		
Investment alignment	Risk budget	Frame the investment process by reference to a risk budget aligned to goals and incorporating an accurate view of alpha and beta		
	Manager line-up process	The effective use of external managers, governed by clear mandates, aligned to goals, selected on fit-for-purpose criteria		
	Real-time decisions	Utilise decision-making systems that function in real-time not calendar-time		
Operating alignment	Competitive positioning	Frame the investment philosophy and process by reference to the institution's comparative advantages and disadvantages		
	Investment culture	Work to a learning culture and adaptive model which deliberately encourages change and challenges the commonplace assumptions of the industry		
Overall governance rating				

Governance assessment of best practice boards and investment committees

Lighter touch



Summary of Board best practice model

Source: [‘Going from Good to Great’](#) | [Thinking Ahead Institute](#)

Attributes of best-practice Boards/ Investment Committees

- | | |
|--|---|
| 1. Strategic focus | <ul style="list-style-type: none">▪ The Board/ IC is focused on issues at the correct strategic level without micro-management▪ There is considerable attention given to organisational purpose, mission and identity |
| 2. Effective delegation | <ul style="list-style-type: none">▪ There is significant insight in the drawing up of a matrix of delegations, and clarity in its application▪ There is a balanced leadership across the Board Chair, CIO and CEO ‘triangle’ |
| 3. Disciplined oversight | <ul style="list-style-type: none">▪ The Board/ IC is sufficiently informed and knowledgeable of the progress made on the investment strategy▪ The Board/ IC gives considerable attention to the oversight role by assiduous attention to the Board papers |
| 4. Diligent and competent members | <ul style="list-style-type: none">▪ Ideally Board/ IC members are selected for their competency in the investment subject area▪ Board/ IC members should receive sufficient development and training to succeed in their governance role, including just-in-time training for specialised subjects |
| 5. Sized appropriately | <ul style="list-style-type: none">▪ The Board/ IC should try to strike the balance between diversity (favouring more members) and efficient practice (favouring fewer members).▪ This is generally supportive to the 5 to 7 person ‘strawman’ Board/ IC with members given quite long-term tenure |

- | | |
|--|--|
| 6. An effective chair that sets direction | <ul style="list-style-type: none">▪ The chair adopts an extended role in leading, managing, facilitating, coaching and stakeholder communications▪ The chair leads the Board/ IC through an annual discussion on the strategic investment plan covering an investment strategy review and including the resource plan |
| 7. Diverse thinking and unified decisions | <ul style="list-style-type: none">▪ The Board/ IC builds its collective intelligence by expressly limiting problems with group-think and agency issues IC meetings should be executed well and be well-supported under general principles with the need for clarity of purpose, quality of execution and time. |
| 8. Well-grounded principles and beliefs | <ul style="list-style-type: none">▪ Strong investment beliefs (accurate, aligned and actionable) support both better discussions and better investment thinking.▪ Common language is used with reference to beliefs to help the Board/ IC and executive to use beliefs consistently |
| 9. Insourcing/ outsourcing | <ul style="list-style-type: none">▪ The critical design uses insourced or outsourced resources to establish the link between the strategic plan and the resources to deliver the strategic plan
The investment support functions (e.g. risk, legal, IT and HR) provide joined-up support in addition |
| 10. Good culture | <ul style="list-style-type: none">▪ There is an open Board/ IC culture that encourages Board/ IC member participation and Board/ IC – management interaction▪ The culture is innovative and supportive to continuous incremental improvement |

Summary Analysis – Governance

Interpretation of survey results



Case Study - AP7 Project

Research process

10 

1-on-1 **interviews** with key stakeholders – Board, Management, completed by Roger Urwin

Roger Urwin and team received and reviewed multiple Management and Board papers to support this research



6 x 3 

SteerCo was made up of 3 Management individuals and met six times

8 stakeholders completed a detailed questionnaire to evaluate AP7's positioning with respect to investment governance.



8

4

4 substantial reports – one discussion paper and 3 final papers - were prepared and presented. The project deliverables were covered in around 50 pages of commentary, analysis and recommendations



Project process

Assess effectiveness

Understand AP7 mission and strategy

Understand investment governance arrangements

Suggest changes

Recommendations for specific changes in policies or practices

Suggestions for areas of change where improvements are possible

Generate positive feedback

Understand at a holistic level the behavioural and cultural forces in current and future practice

Strengthen commitment to mission and to agreed changes

- **Interviews:** Around one third of the inputs to this review came from a number of interviews with the project stakeholder group. These inputs comprised the nuanced and more qualitative considerations.
- **Surveys:** Around one third of the inputs to this review came from a survey administered to the stakeholder group. These inputs were structured and added quantitative considerations.
- **WTW context:** The desk-research, survey and best practice research were critical to provide context and 'connect the dots' and make critical connections in how governance works at AP7. In particular, this enabled us to build the picture of the standing of the organisation relative to global peers.
- **Method.** This involved engaging the key stakeholders and aiming to address the issues with a co-creation mind-set while applying an investment and governance best practice model.
- **Timing:** This review was conducted between October 2022 and January 2023, with the presentation to Management carried out on January 19 in the AP7 Stockholm office

Thinking Ahead Institute

An innovation network founded by WTW

Case Study AP1: Project goals and design

Roger Urwin and team received and reviewed Management and Board **papers** to support this research



1-on-1 **interviews** with key stakeholders – CEO and (six) Board members

Board members and three members of senior leadership completed a short **questionnaire**



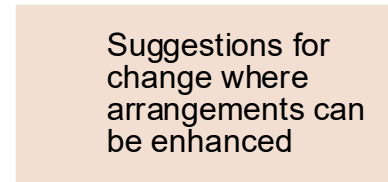
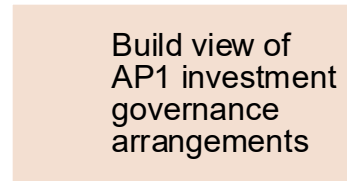
A **presentation report** is prepared and presented to the Board and discussed in person.



Understand AP1 mission and investment arrangements



Make assessment of AP1 board governance vs best practice

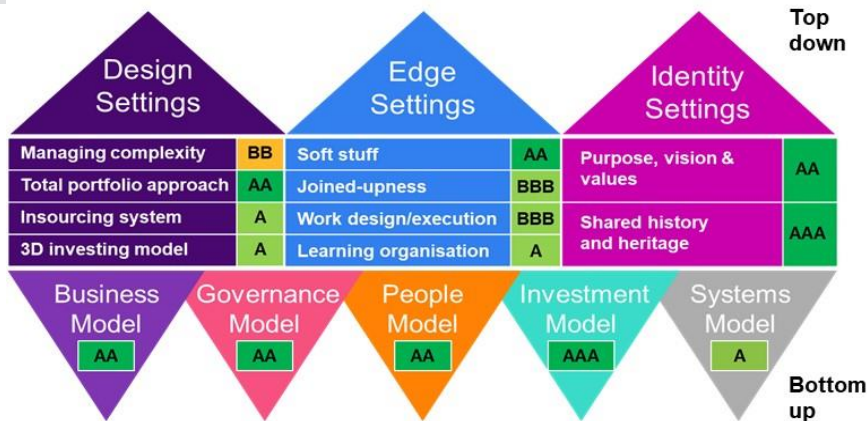


Case study on org alpha. Understanding the organisation-as-a-system

New Zealand Super and its Five-yearly Review



NZSF ratings using WTW dual lens method



RAG analysis	Green = Best practice	Lime = Good practice	Amber = Moderate practice	Red = Poor practice
Ratings	AAA, AA	A, BBB	BB, B	CCC & below
NZSF count	8	6	1	-



Key results of the review

- Governance model ✓
- TPA ✓
- 3D investing ✓
- Soft stuff is the hard stuff ✓

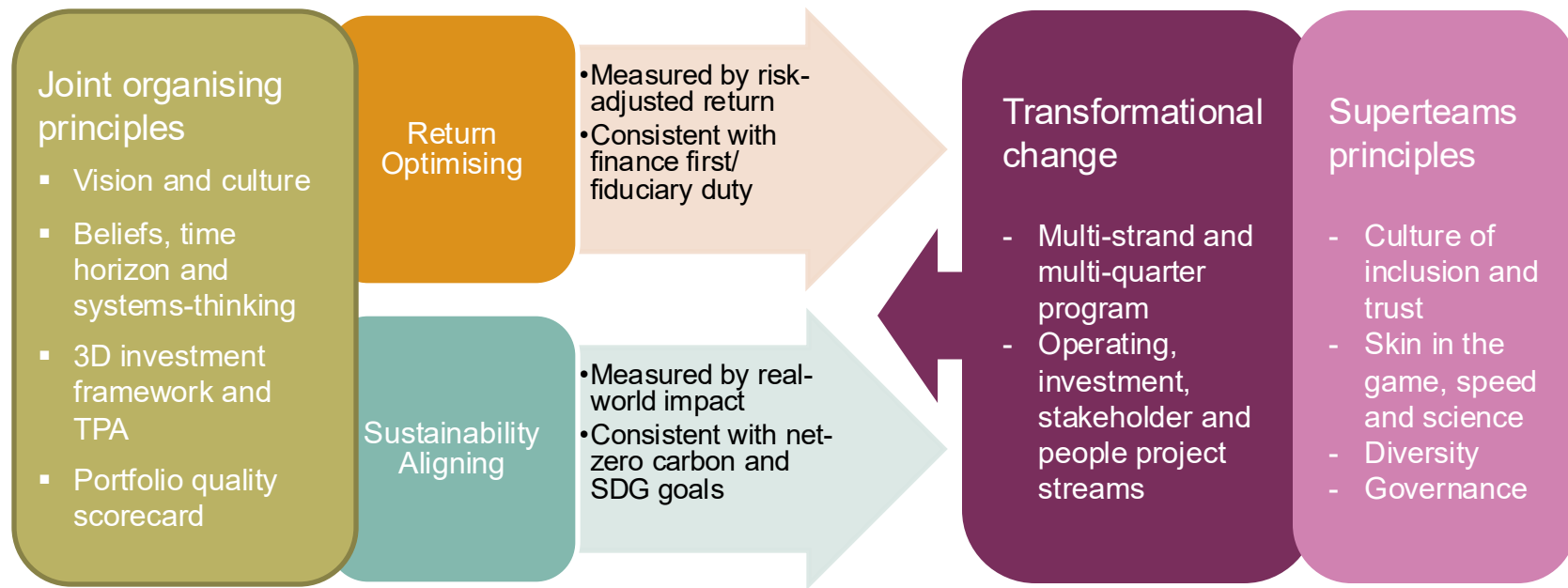


Next challenges

- Deepening TPA & Risk 2.0
- 3D investing & sustainable finance

Advanced case study. PGGM. Adapting to new goals, building out teamwork and working on governance

The combination of finance-first fiduciary duty-led and net zero aligned policies that are high level drivers of all investment arrangements



What might need to change? The Peer Study Best-bits Model

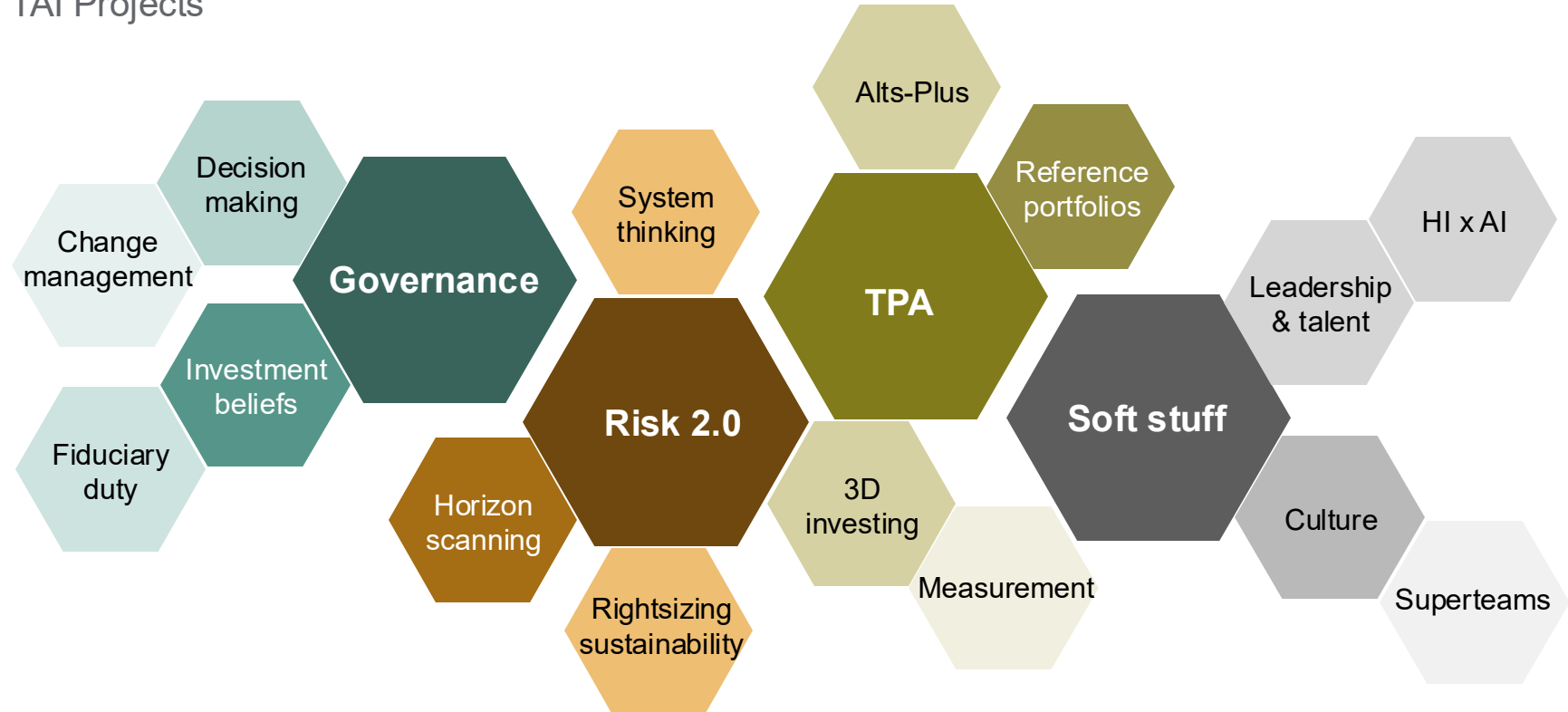
The Peer Study generated this Model of the what the Peers considered their stronger propositions in Org-Alpha. This is a maturity model in which all of these 'tiles' are candidates for change

Org-Alpha – the alpha enabling the portfolio alpha from people and process, reflecting structural endowments and developed advantages

Thinking Ahead Peer Study 'Best-Bits-Model' taken from the 26 Peers strongest propositions for success in future			
	Canada model best bits	Total portfolio thinking best bits	P2P (People-2-People) best bits
Governance	#1. Governance/fiduciary duty – Canada model foundations	#2. Risk 2.0 – risk assessed wider, longer, softer	#3. Soft stuff – culture, governance, talent, HI x AI
Investment	#4. Alts-plus proposition – allocations, risks, resourcing	#5. TPA Total Portfolio Approach - various versions in a spectrum	#6. 3D Investing - risk, return, impact spectrum
Operating	#7. Org design & internalisation – mixing insourcing & outsourcing	#8. Portfolio quality dashboards – multiple comparators	#9. Beliefs and propositions – aligning values, beliefs

Improving organisational alpha to deliver long-term success

TAI Projects



Appendix – other assessment framework

Governance assessment - overarching lens

Key points	Narrative
Investment governance and its part alongside other functional components	<ul style="list-style-type: none"> Investment governance concerns how investment practice is executed. This mostly concerns resources, structures and processes. Governance is a function of time, expertise and organisational effectiveness. Good governance is generally characterised by being: effective, innovative, adaptive and open-to-scrutiny.
Governance budget principles	<ul style="list-style-type: none"> The (investment) governance budget describes the governance available to manage effective investment practice The governance budget should align with the investment strategy by reference to sophistication and aspiration The governance budget is a scarce resource but one that can be increased subject to investment in and management of resources Investment performance and governance budget are positively associated; as a guide the difference between 'good' and 'bad' governance is likely to be worth of the order of 1 to 2% per annum
Best practice governance can be defined.	<ul style="list-style-type: none"> Global 'best practice' can be associated with various attributes: core attributes and exceptional attributes as captured opposite The Clark and Urwin model is described in detail in published research from 2007 (Best-practice investment management) The model drew its conclusions from a detailed study of a global group of successful funds taken from various institutional backgrounds including pension funds, sovereign wealth funds, and endowments

Core attributes 	Exceptional attributes 
Mission clarity	Competent investment executive
Effective focusing of time	High level board competencies
Effective Board/IC leadership	Supportive compensation
Strong beliefs informing decision-making	Real-time decision-making
Risk budget framework	Exploit competitive advantage
Fit-for-purpose manager line-up	Strong organisational culture

Governance assessment - comparative advantage lens

Align thinking: Deepen total portfolio thinking and methodology



The decision-making process is aligned to fund goals and “joined-up” with a portfolio in which all investment opportunities compete for capital and all team members collaborate

- *Exemplars: NZ Super, CPPIB, CDPQ*

Align measurement: Create total portfolio dashboard and balanced scorecard



Monitor and adapt strategy by reference to dashboard in financial efficiency, resilience, implementation and sustainability. Measure progress and value created by reference to balanced scorecard through multiple lenses

- *Exemplars: USS, ATP, OTPP*

Align governance: Balance internal and external resourcing and roles



The key strategies involve increased internal spending within asset classes and in specialist areas including on technology with limited external reliance

- *Exemplars: BCI, Future Fund, Norges*

Align culture: Create the motivations and structures for collaboration



Culture of collaboration through a one-team approach in which goals are aligned and results are seen in context and backed up by reward

- *Exemplars: Ontario Teachers, Wellington, Baillie Gifford*

Governance assessment - comparative advantage lens: checklist of AO best-practice principles

Total portfolio thinking	Checklist of best-practice principles	
	1	The investor objectives and investment goals are aligned
	2	Our fund is not unduly influenced by benchmarks
	3	Consideration of strategy and our results focuses on measures of long-term success
	4	Sustainability considerations that contribute to meeting our financial goals are weighed appropriately
	5	Impact considerations that contribute to meeting our non-financial goals are weighted appropriately
	6	Our forward-looking risk models are well calibrated and incorporate short- and long-term considerations
Total portfolio dashboard	7	Our performance attribution produces a clear picture of the different contributors to good/bad performance
	8	We have quality data and measures identifying our internal team's performance and accountability
	9	We assess investments for portfolio inclusion even if they sit outside of defined asset classes
	10	We have good data to evaluate our capital allocation choices

Align governance	Checklist of best-practice principles	
	11	Our fund is able to move quickly to change allocations when investment conditions change
	12	Our internal resources are adequate given our size and organisational preferences and beliefs
	13	We effectively incorporate inputs from outside advisers and managers
	14	Our strategy decisions are considered by an investment committee that has effective governance
Align culture	15	We surface strategy considerations from integrated team views as opposed to by sectoral perspectives
	16	Our compensation and incentives are fully aligned to the value creation and success of our fund
	17	Our culture is to judge results in context, not attribute simplistic causal explanations
	18	Our culture is to collaborate and value team success ahead of individual success
	19	We strike a good balance in considering short-term and long-term goals and progress
	20	There is an alignment between board and executive in which each entity plays to their roles and strengths

Limitations of reliance and contact details

Limitations of reliance – Thinking Ahead Group 2.0

This document has been written by members of the Thinking Ahead Group 2.0. Their role is to identify and develop new investment thinking and opportunities not naturally covered under mainstream research. They seek to encourage new ways of seeing the investment environment in ways that add value to our clients.

The contents of individual documents are therefore more likely to be the opinions of the respective authors rather than representing the formal view of the firm.

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