

Defined Benefits: today and tomorrow

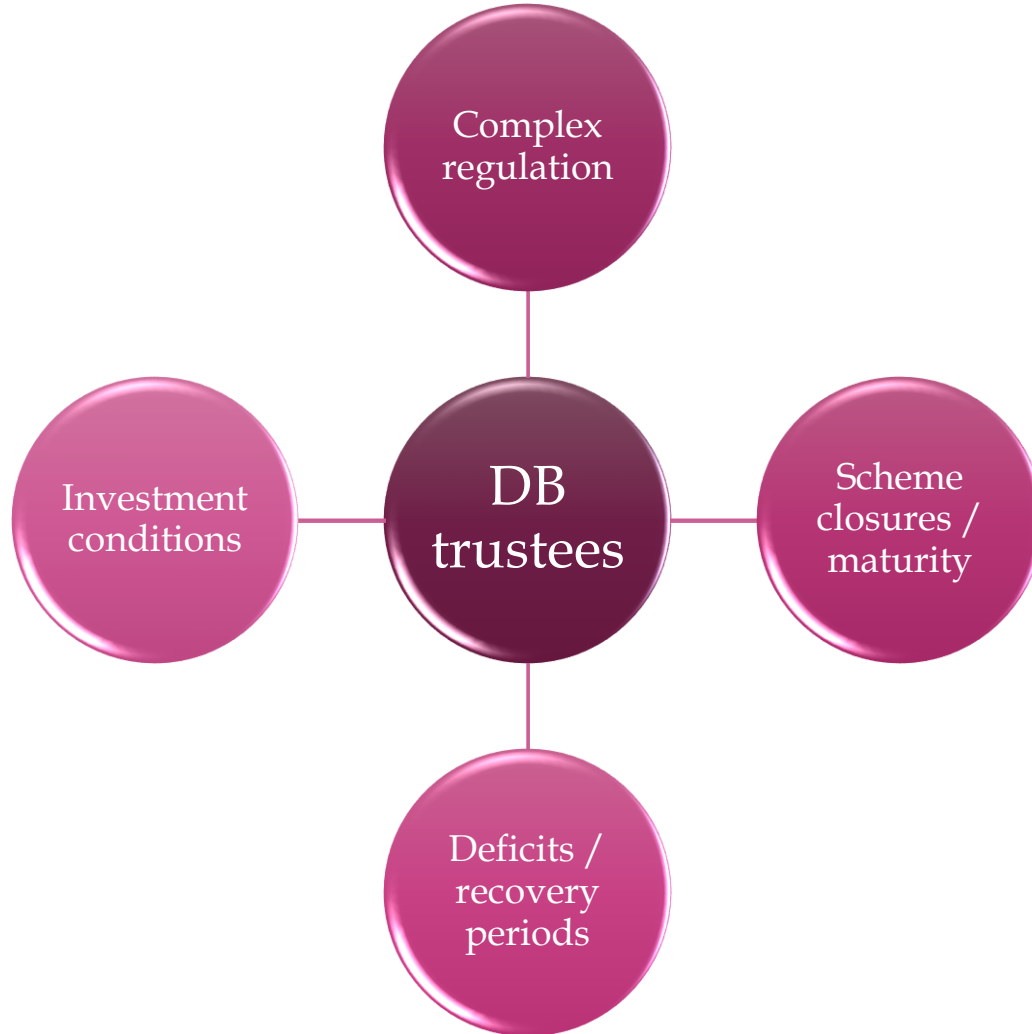
The role of governance

Reviews provide clarity on trustee responsibilities

“... that the client’s interests are put first, that conflict of interest should be avoided, and that the direct and indirect costs of services provided should be reasonable and disclosed”

Kay J (2012), [The Kay Review of UK Equity Markets and Long-Term Decision Making: Final Report](#)

Good governance matters more than ever



Good governance delivers quantifiable benefits



Chart 1: Evidence for a 'good governance' premium

Canadian research

2006 study: Ambachtsheer et al found a positive statistical relationship between good governance and investment performance (in a sample of 81 schemes from around the world). Schemes with good standards of governance (self-assessed by schemes and with size of scheme controlled for) added 1-2% per annum in investment performance when compared to less-well governed schemes.

Swiss research

2014 study: Ammann and Ehmann constructed objective governance scores for Swiss pension funds (sample of 139) based on organisational structure, target setting and investment strategy, investment process, risk management, monitoring and transparency. The scores were then compared to investment performance and found a positive relationship. The research also highlighted the relationship between scheme size and investment performance with larger schemes performing better.

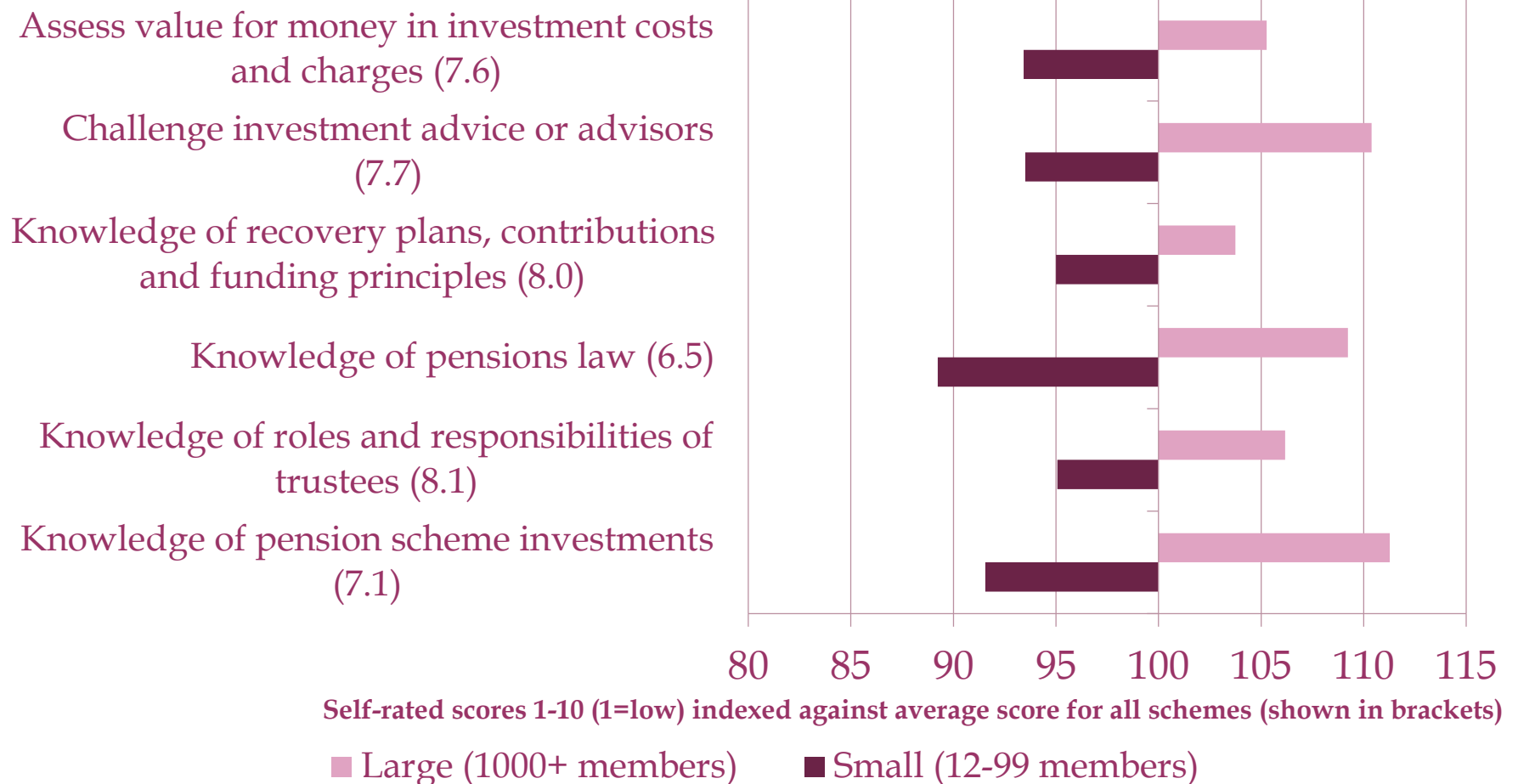
Australian research

2014 study: Research by the McKell Institute explored the relationship between governance structures and performance and concluded that mandating independent directors of superannuation schemes would not add significantly to the performance of schemes. It concluded that the current governance arrangements with representative trustees drawn from membership and employers delivers superior standards of conduct and performance.

Components of good governance



Chart 2: Smaller schemes consistently rate their knowledge and ability lower than larger schemes



Questions for discussion

- What can be done to improve governance?
- What further can be done to support trustees?
- Can small schemes afford / access good governance?
 - Access to qualified / experienced trustees
 - Systems and controls (learning from others)
 - At what cost?
- If not, should small schemes be encouraged / forced to consolidate?