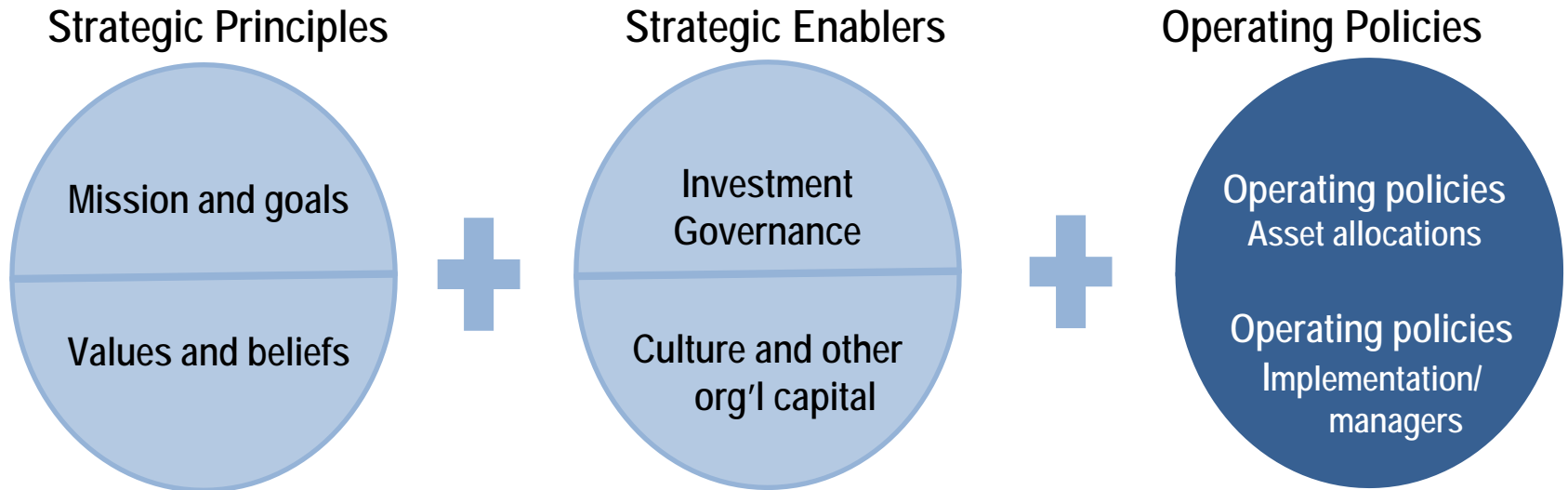


Beliefs need to address all elements of asset owner design



Setting the context for investment governance

- **Investment Governance** we define as *the capacity to create that value derived from the structures, skills, resources and processes employed by the fund*
- Governance addresses the issue of good practice – *doing things right* – captured in such principles among others as fiduciary and ethical standards, prudent man principles and accountabilities, with accompanying measurement and oversight, controls and disclosures on conflicts
- Governance also addresses the value-creating issue of effective practice – *doing the right things* – the particular competencies and characteristics of organisational effectiveness

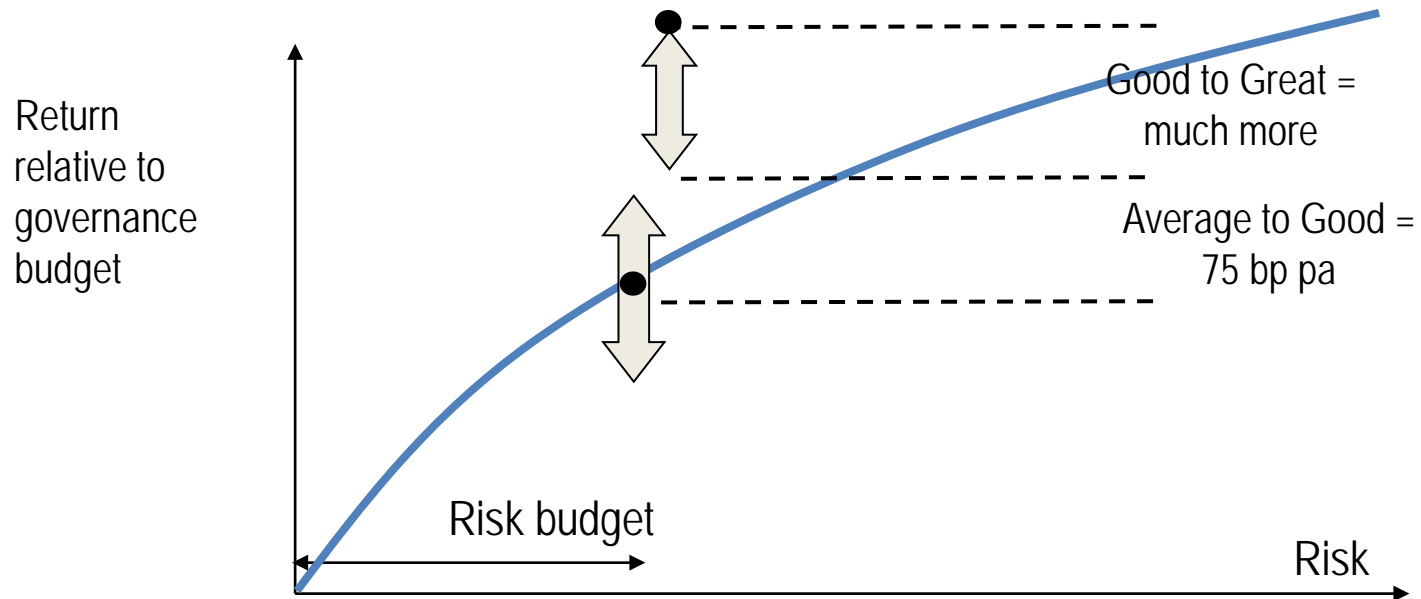
How much is good governance worth?

Ambachtsheer

The Ambachtsheer research works out the difference between good and bad governance at between 1% and 2% per annum

Empirical studies

Various funds have produced exceptional figures above this range (notably Yale with 6% pa active returns)



Global best-practice investment governance

- The key conclusion of our governance research are the global best practice attributes that allow organizations to achieve sustainable above average investment outcomes
- We summarise six of these attributes below – in which strong investment beliefs have a bearing in each case

Global best-practice factors (Source: Clark and Urwin)	
Mission clarity	Clarity of the mission and the goals and commitment of stakeholders to the mission statement
Strong beliefs	Strong investment beliefs commanding fund-wide support that align with goals and informs all investment decision-making
Risk budget framework	Frame the investment process by reference to a risk budget aligned to goals and incorporate an accurate view of alpha and beta
Supportive compensation	Effective compensation practices used to attract and retain appropriate talent and align actions to the mission
Competitive positioning	Frame the investment philosophy and process by reference to the institution's comparative advantages and disadvantages
Learning culture	Work to a learning, collaborative culture which deliberately supports change and innovation and challenges the commonplace assumptions of the industry

Governance Roles and Responsibilities



Guiding Principles for Policy Development

- **“Clarity of Roles”**: Policies should clearly define the Committee’s authority and role in the activity to **conduct, set, approve, and oversee**
 - This requires clearly stating appropriate constraints and ranges set forth in each policy statement
- **“Testable”**: Policies should be clear, measurable, and specific in order to evaluate their effectiveness, and reduce operational risks and complexity
- **“Appropriate Level of Detail”**: Staff should be empowered to implement policies in the context of a robust governance and oversight framework, which further enhances the internal control environment