



STRENGTHENING THE APPLICATION OF THE CORE PRINCIPLES: LESSONS FROM CENTRALISED INVESTMENT INSTITUTIONS

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Objectives of the report

- Examine governance frameworks and investment policies of centralised investment institutions
- Map against recommendations of Core Principle 3: Governance and Core Principle 4: Investment and Risk Management
- Highlight key policy issues linked to practical application of governance and investment standards



Institutions analysed

	Country	Type	Reason for inclusion
Canada Pension Plan Investment Board (CPPIB)	Canada	Reserve Fund	Governance framework Investment approach
ATP	Denmark	Pension Fund with Individual Accounts	Governance framework Investment approach
Mandatory Provident Fund (MPF)	Hong Kong (China)	Pension Fund with Individual Accounts	Investment approach
Government Pension Fund - Domestic (SPF-N)	Norway	Sovereign Wealth Fund	Governance framework Investment approach
Government Pension Fund - Global (SPF-G)	Norway	Sovereign Wealth Fund	Governance framework Investment approach
Central Provident Fund (CPF)	Singapore	Pension Fund with Individual Accounts	Governance framework
AP1-4	Sweden	Reserve Fund	Governance framework Investment approach
AP7	Sweden	Pension Fund with Individual Accounts	Governance framework Investment approach
National Employment Savings Trust (NEST)	United Kingdom	Pension Fund with Individual Accounts	Governance framework Investment approach
Thrift Savings Plan (TSP)	United States	Pension Fund with Individual Accounts	Governance framework Investment approach



Core Principle 3: Governance

Implementing Guideline Core Principle 3		Key features
3.1	Identification of responsibilities	Separation of operational and oversight responsibilities
3.2 – 3.4	Governing body	Creation, role and responsibilities of governing bodies
3.5	Accountability	To members, supervisor, competent authorities
3.6	Suitability	Membership of governing body
3.7	Delegation and expert advice	Sub-committees of the Board; internal and external expertise
3.8 – 3.10	Auditor, actuary, custodian	Independence
3.11 – 3.12	Risk-based internal controls	Organisational and administrative controls; codes of conduct; internal reporting systems
3.13	Disclosure	Timely communication of relevant information to all stakeholders



Mission

- Mission reflects role in domestic pension system
- Board's role is to interpret mission and transform into set of operating and investment strategies
- Change the mission
 - Are the existing strategies still appropriate
 - Are the existing skills the right ones



Remuneration

- Board: market rate, public sector rate, pro bono

	Chair	Board Member
Australia Future Fund	USD 160,000	USD 80,000
New Zealand Superannuation Fund	USD 50,000	USD 35,000
NEST (UK)	USD 125,000	USD 30,000
CPPIB (Canada)	USD 156,000	USD 40,000
		+ per diem USD 1,400 + travel time
AP2 (Sweden)	USD 12,000	USD 6,000
		+ around USD 4,000 for Committee work

- Executives: market rate, market rate minus

USD	Fixed	Variable	AUM
<i>AP4</i>			
Chief Executive Officer	400 000		42 billion
<i>Australia Future Fund</i>			
Chief Executive Officer	483 000	Up to 120%	105 billion
Chief Investment Officer	447 275	Up to 120%	
<i>CPPIB</i>			
President & CEO ¹	518 000	2 702 700	252 billion
Chief Investment Strategist ²	370 000	1 030 440	
<i>MPFA</i>			
Managing Director	730 000		n/a
<i>NEST</i>			
Chief Executive	290 000		2.4 billion
<i>New Zealand Superannuation Fund</i>			
Chief Executive Officer	511 000	378 000	26 billion



Key findings relevant to private pensions

- Oversight Board with high level of autonomy and responsibility
- Missions clearly stated
- Board accountability for achieving the mission reinforced by high disclosure standards
- Boards critical to success – recruitment criteria reflect this
- Close oversight by the Board of operational and other internal risks



Core Principle 4: Investment and risk management

Implementing Guideline Core Principle 4		Key features
4.1	Retirement income objective and prudential principles	Alignment with retirement income objective; risk management techniques
4.2 – 4.4	Prudent person standard	Prudent person standard, fiduciary duty, requirement to establish investment process with adequate safeguards
4.5 – 4.12	Investment policy	Written policy; clear risk and return objectives appropriate for the characteristics of the fund. Asset allocation strategy with tolerances. Investment options for members. Review procedures.
4.13 – 4.21	Portfolio limits and other quantitative requirements	Definition; respect for diversification and liability matching
4.22 – 4.27	Valuation of pension assets	Transparent basis
4.28 – 4.29	Performance assessment	Monitoring procedure



Key findings

- Investment policy directly addresses the mission/objective
 - Written policy
 - Return targets, risk budget, asset allocation
 - Degrees of tolerance
- Board held to prudential standards
- Regular reporting against return and risk targets
 - Risk management main tool for internal controls
- ESG integration an important driver of long-term risk adjusted performance



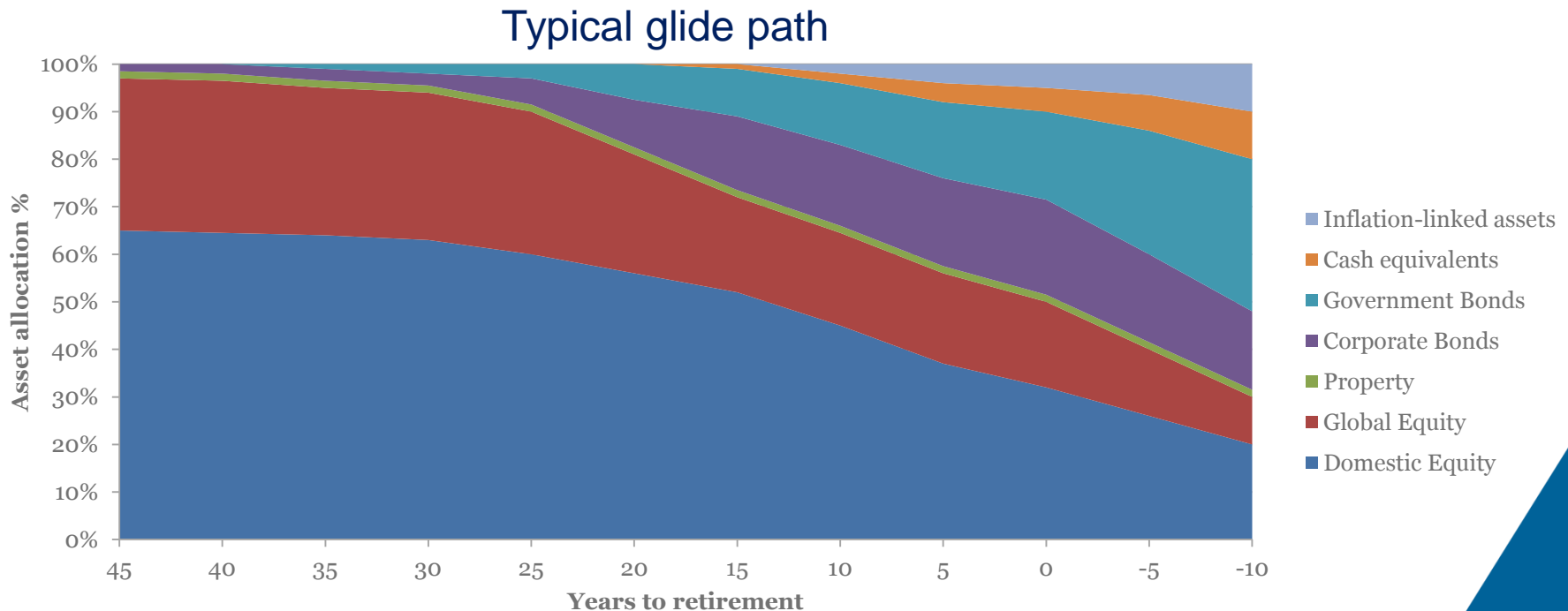
Institutional mission and investment strategy

- Different role -> different mission -> different investment policy
- SWF and Reserve funds: risk appetite depends on size and potential liquidity calls
 - Absolute return
- Pension funds with individual accounts: strategy suitable for building pension pot – focus on capital losses
 - Lifecycle



Target date/lifecycle strategies

- Multi-year investment horizon becoming more conservative over time
 - Different glide paths, underlying building blocks, sequencing, cohort size





Long-term return strategies

■ Risk tolerance, source of funds, asset base

	Canada CPPIB	Norway SPF-Domestic	Norway SPF-Global	Sweden AP 1-4
Classification	Reserve fund	Sovereign wealth fund	Sovereign wealth fund	Reserve fund
Investment objective	Maximise returns without undue risk of loss. Aim is to generate sufficient returns that there is no need to raise contributions	Maximise long-term returns after costs, while investing responsibly	Maximise long-term returns after costs, while investing responsibly	To help create stability in the pensions system. Maximise returns for a low level of risk.
Source of funds	Employer and employee contributions	Surplus social security contributions	Government funds from oil production	Historic surplus social security contributions
Investment strategy	Highly diversified across asset classes and geography. Significant direct investment and investment in long-term real asset projects	Dominated by domestic assets	Recent enlargement of investment universe to include Real Estate, emerging market equity. Exploit the fund's long-term approach and its size to capture investment opportunities.	Diversified in terms of asset class and geography
Investment risk tolerance/control	Overall risk target established through a reference portfolio (85% global equity, 15% Canadian government bonds). Size of the fund means able to withstand short-term losses.	Overall risk target established through a reference portfolio (60% Nordic equity, 40% Nordic fixed income; 85% weighting to Norway)	Overall risk target established through a reference portfolio (37.5% equity, 62.5% fixed income).	Low risk tolerance built into mandate. At least 30% of the portfolio must be invested in high-grade fixed income. Currency exposure max 40%.
Active/passive approach	Active	Active	Active	Active
In-house/external management	In-house	In-house	In-house	Primarily external



Key findings relevant to private pensions

- Different mission -> different investment strategy
- Express performance objective in terms of the mission
- Monitor performance against this long-term goal
- ESG integration



Conclusions and policy recommendations

- Core Principles are relevant across different organisations and operations
- High level of transparency and accountability over mission, processes, performance
- Investment policy clearly reflects mission
- Role of the Board is critical
- Institutional capacity to implement selected investment strategy should be monitored



THANK YOU!
QUESTIONS OR COMMENTS?