



The Alchemy of Governance



AMNT Summer Conference 2016

Rory Murphy, Chairman – MNOPF Trustees Limited

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“A process so effective that it
seems like magic!”

A decorative graphic at the bottom of the slide consisting of two overlapping, wavy blue shapes that resemble a stylized ocean or a modern landscape feature.

What is Governance?



- Direction / Strategy
- Implementation
- Compliance
- Accountability

Your Chance To Contribute!



Does your pension scheme use a
fiduciary manager for scheme
investment?

Your Chance to Contribute!



If you do not use fiduciary management, do you:

- a) Think you will consider it in the future
- b) Feel that the cost does not represent value
- c) Have worries about fiduciary manager conflicts
- d) Believe that investment should be run “in-house”

About MNOPF



- Industry-wide defined benefit scheme, founded in 1937
- Over 300 participating employers
- Funded on a 'last man standing' basis
- Assets around £2.8 billion
- Total membership approximately 27,000
- Closed to new members in 1996 & future accrual in April 2016
- 600 contributing members in new DC Section

About MNOFP



- 2013 – Engaged Investor – Best De-Risking Initiative
- 2014 – Global Investor – Pension Scheme of the Year
- 2015 – Financial News – Best De-Risking Strategy
- 2015 – Professional Pensions – Best Use of Risk Reduction Strategies
- 2015 – Professional Pensions – Best DB Scheme Innovation
- 2016 – Pensions Age – Pension Scheme Innovation Award

Governance & Executive Leadership



Trustee Board

7 employers & 7 union representatives

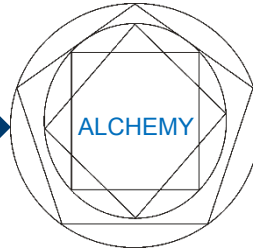
Works at a high level

Owns and evolve the strategy

Owns the governance & culture

Sets policy

Challenges and manages the executive



Executive Leadership

Ensign Pensions (& advisors)

Works at a detail level

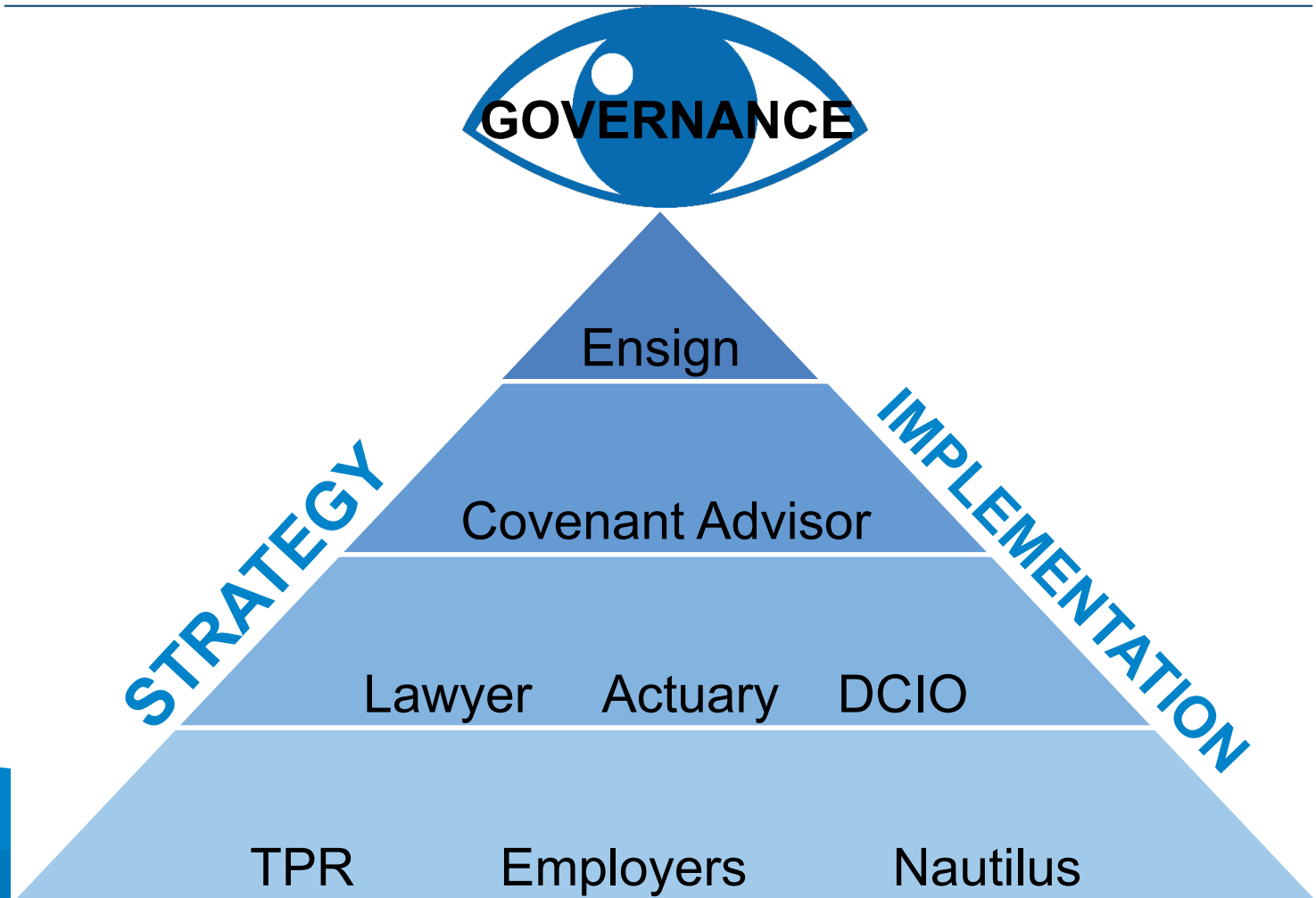
Implements the strategy

Operates within governance controls

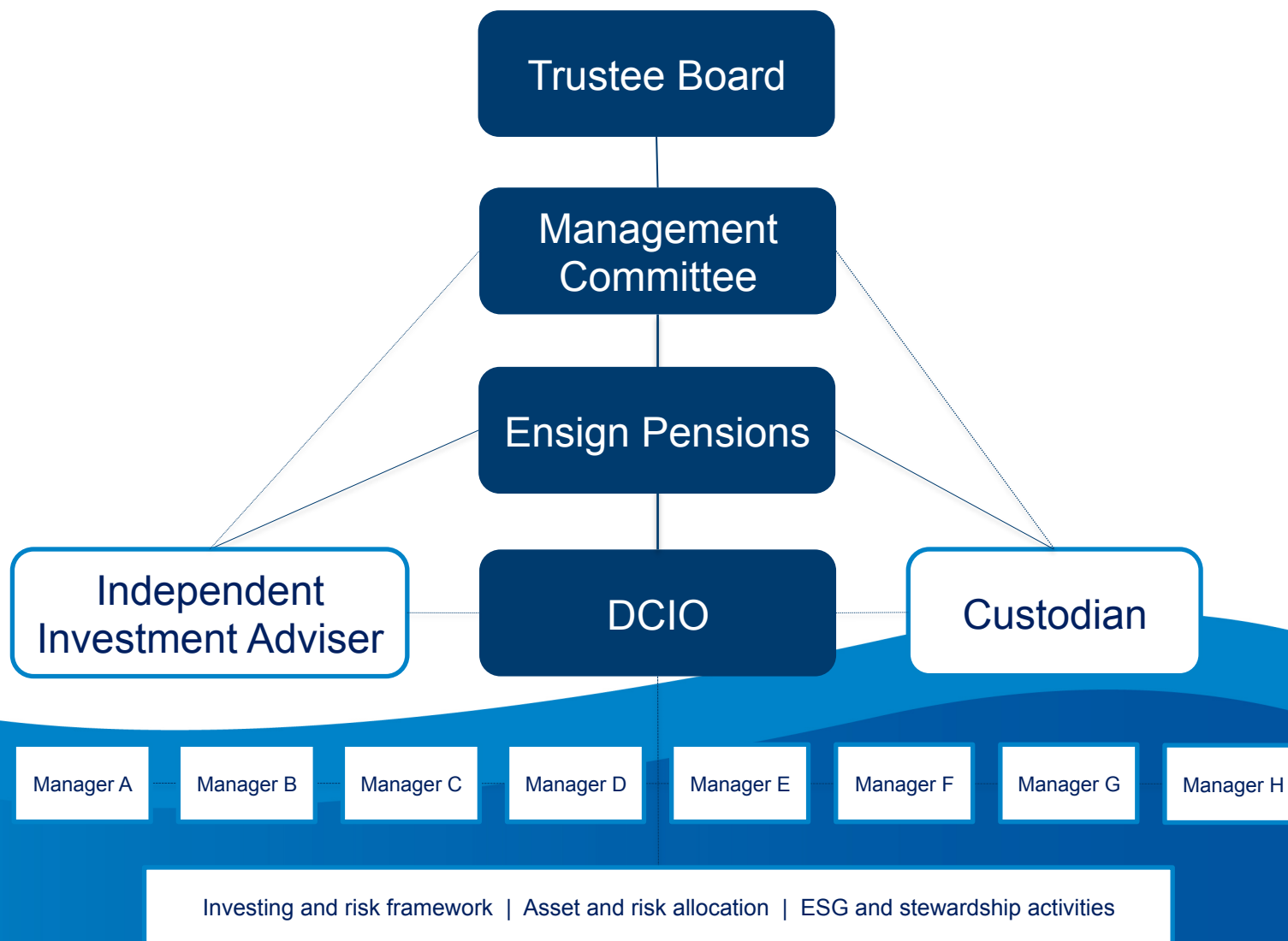
Provides technical expertise

Delivers guidance and recommendations

Governance Pyramid



MNOPF Governance Structure



“Top Notch” Governance



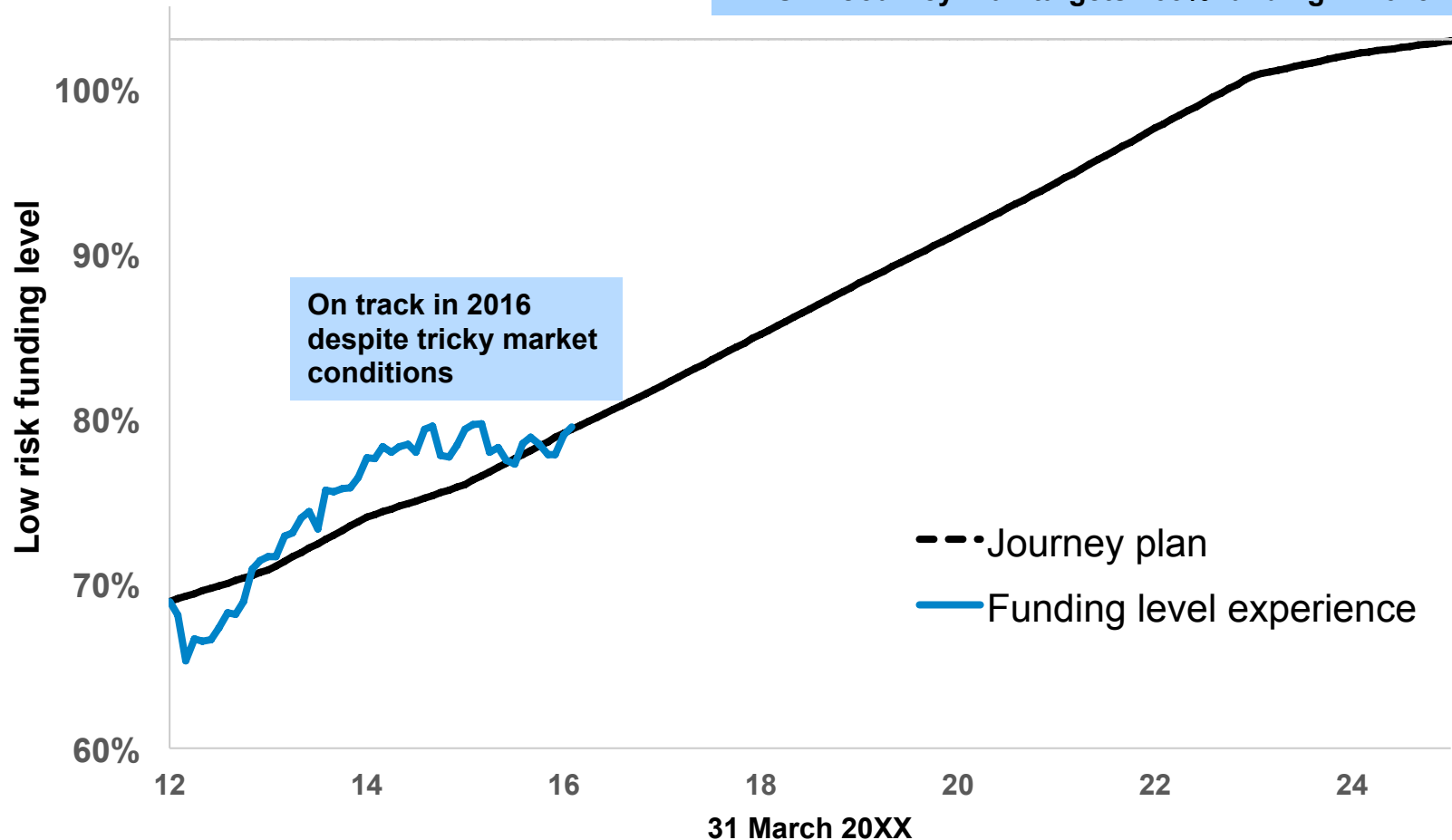
Core good governance attributes
Clarity of objectives / mission
Effective focusing of time
Investment strategy leadership
Well defined investment beliefs
A risk budgeting framework
Fit-for-purpose investment manager line-up
Exceptional attributes that differentiate the ‘great’ funds from the rest
Highly competent investment executive
High-level board investment competencies
Supportive compensation for investment expertise
Real-time decision-making
Ability to exploit competitive advantage
A learning organization

12 governance factors associated with organizational effectiveness derived from “Best-practice investment management: Lessons for asset owners from the Oxford-Watson Wyatt project on governance.” White paper October 2007 by Gordon L Clark & Roger Urwin. “

Journey Plan



MNO PF Journey Plan targets 103% funding in 2025



Investment Governance Timeline



Evolution of the MNOFP

1937	Fund founded as an industry, multi-employer, defined benefit pension fund
1990	MNOFP uses its investment consultant – Watsons – to help outsource its fund manager line-up
2008	Birth of the Delegated CIO concept – increased delegation given to Watson Wyatt in an implemented consulting role
2009	KPMG appointed to manage Delegated CIO review
2010	Towers Watson appointed as Delegated CIO Hymans Robertson appointed as independent investment adviser

Key Milestones since DCIO Appointment

2012	MNOFP Old Section achieves funding objectives and completes full buy-in
2014	Full buy-out of MNOFP Old Section completed
2014	Longevity hedge completed
2015	Actuarial Valuation – No new deficit – Journey Plan on track
2016	Fund closes to future accrual with enhanced DC contributions

Delegated CIO



- DCIO is the execution of the investment part of our Journey Plan
 - The board owns the Journey Plan and approves changes to it
 - DCIO executes the Plan subject to high quality oversight
 - DCIO reports to board on progress
- Growing market as trustees grapple with low yields, regulation and complexity
- The market:
 - Over 600 funds use some form of fiduciary management*
 - Two thirds of appointments are small < £100m*
 - Only 5% of mandates are >£500m schemes like the MNOFP*

Role of the CIO



- Exercises judgement over the whole pension fund context
 - Investment opportunities and risks
 - Asset liability position
 - Covenant of sponsor
- Applies expertise in new pension finance
 - LDI and long term growth investing
 - Buy-ins and buy-outs
 - Longevity hedging
 - Contingent assets
- Accountable and measurable
 - Clearly defined mandate with decisions matrix
 - Progressed measured in funding terms
 - Progress assessed in the context of the journey plan
 - CIO could be an internal or external role

Delegated Responsibilities



Trustee responsibility

Establish the Strategy

- Set funding objectives
- Own the Journey Plan
- Agree risk and return targets
- Agree asset allocation ranges
- Agree funding level triggers

Delegated to DCIO

Implement the Strategy

- Set asset allocation
- Dynamic risk and portfolio management
- Select and monitor investment managers
- Compliance with regulations

Increasing impact

Increasing time/resource

In Practice



Between meetings

- DCIO manages portfolio in real time.
- Monitors underlying managers
- Tracks funding levels triggers on a daily basis

Quarterly DCIO oversight meeting

- Independent Investment Adviser, CEO & DCIO
- Portfolio and operational review
- Reviews draft advice papers

Management Committee and Board meetings

- CEO report
- DCIO investment presentation to full Board.
- Review of Journey Plan and funding triggers

Twice yearly participating employer meetings

- Chairman, CEO and advisers present to and take questions from participating employers.

Why Willis Towers Watson?



**Right questions of right
people at right time**

- Understand the Fund's changing dynamics and investment implications
- Acts as a partner not an asset manager – which is crucial
- Provides reporting and analysis that stands up to scrutiny
- Evidences and instils confidence in the control environment
- Welcomes scrutiny

MNOPF Experience



...been **flexible** to our needs

- Evolved with us over time
- Incorporated buy-ins, buy-out and longevity hedge
- Strengthened our governance

...kept us on track through **smart investment decisions**

- Made the difficult liability hedging decisions
- Numerous other investments that delivered return, but managed risk...

...improved our **confidence** and **governance**

- Now run at very low risk and cost levels
- Access to scale
- Partnership approach that complements our strengths

Looking To The Future...



Positives of fiduciary management have been slow to be accepted

- The pensions industry is conservative
- Consensus views build slowly
- National differences

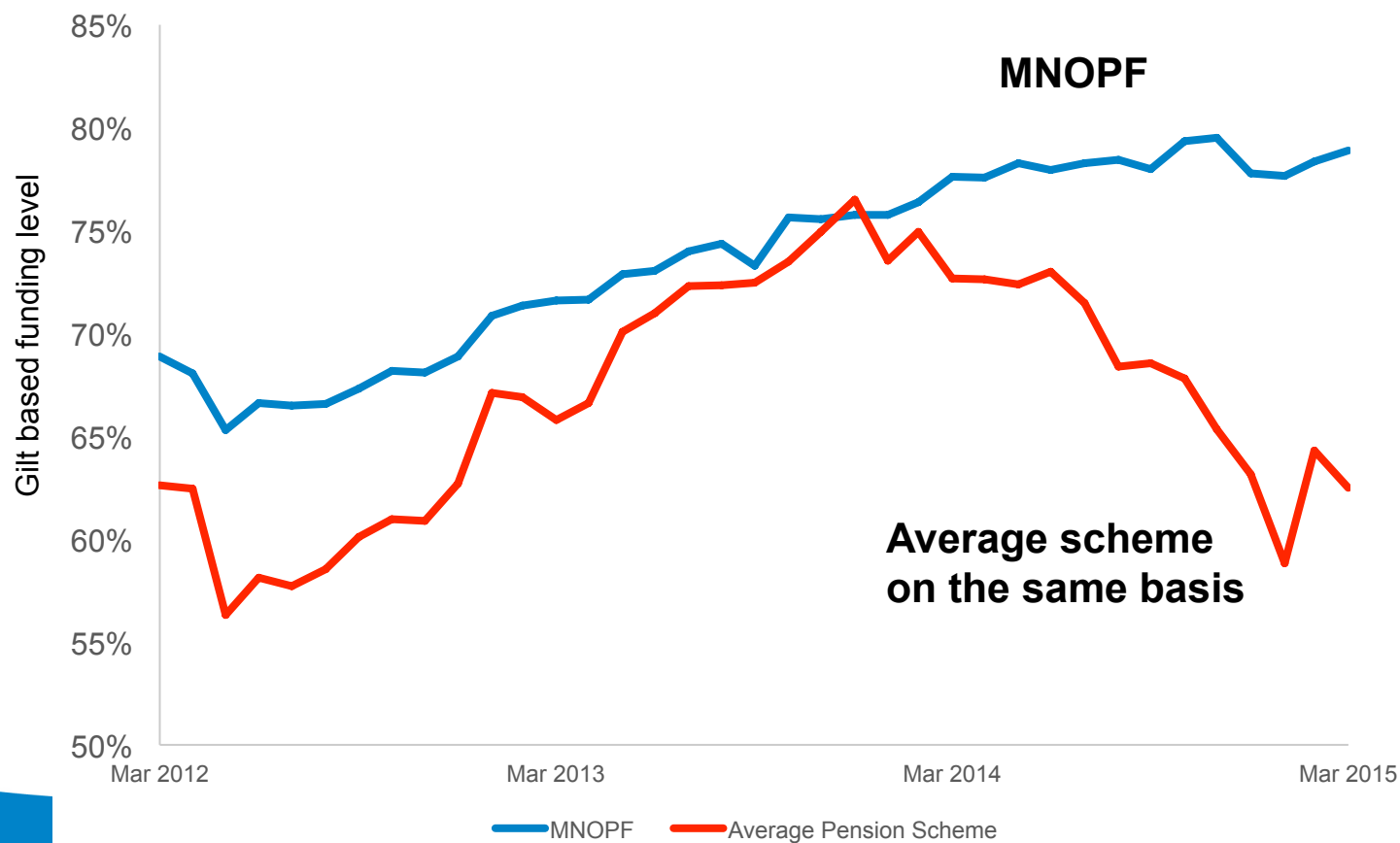
Size has been a big factor in the market

- More traction with small funds where economics have been strongest

What the future holds

- More large funds embracing the concept
 - Success breeding success
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And It Works!



Any Questions?

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6 exceptional best practice attributes

- **Investment executive:** The merits of separating governance into a governing function, which sets the framework, monitors, and controls, and an executive function, which makes the decisions within the given framework and implements them cannot be understated. Not only does this improve efficiency and accountability, but it also allows for the concentration of investment expertise within the executive function. Best-practice funds adopt a clear separation of governing and executive functions, with a strong culture of accountability. Furthermore, the executive function has a high level of investment competency, enabling the funds to implement and monitor complex investment arrangements.
- **Board selection and competence:** Sound investment competencies are also observed at the board level of best-practice funds. Board members ideally have strong numeric skills and the ability to think logically within a probability-based domain, such skills enabling the board to function effectively in its long-horizon mission.
- **Supportive compensation:** Leading funds address this at both the board and executive level, with some success at using compensation to attract appropriate skills and align actions to the goals of the fund. Current practice among funds in general appears to result in significantly more being paid to external agents. There is scope to address this imbalance through greater use of internal resources—an approach that is becoming more widely adopted.
- **Competitive advantage:** Investment is a highly competitive activity, and, for funds to succeed, they need to be aware of their competitive advantages and disadvantages and adapt their decision-making accordingly. Much of their competitive advantage will be built on a sound belief structure, but will also maximize their own particular areas of competence. It is equally important that funds should be aware of areas where they have no expertise, and seek to limit their strategy accordingly.
- **Real-time decisions:** Most funds are geared toward making decisions around a calendar-based series of meetings. Best-practice funds, however, tend to have processes in place that enable decisions to be taken as and when necessary, based on investment market conditions. Making such a change from calendar to real-time focus involves more delegation and a clear definition of responsibilities.
- **Learning organization:** Best-practice funds tend to be innovative. To be successful they need to operate in a culture that learns from experience. They also need to be willing to challenge conventional wisdom and deal enthusiastically with change.

* Clark, Gordon L, and Roger Urwin. "Best-practice investment management: Lessons for asset owners from the Oxford-Watson Wyatt project on governance." White paper October 2007