The overlooked art of good governance

A primer for the institutional investor

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One of the first items we typically address with new clients is their governance structure. We do this as we believe governance is a vitally important, yet often overlooked, element in the development and maintenance of enduring and resilient investment programmes.

The investment programmes we work with may be institutional in nature, such as corporate superannuation schemes or government-related funds, or oriented towards retail investors, such as KiwiSavers or financial advisers. Their objectives are often very different, but all benefit from having in place good governance structures and policies.

But what is *good* governance? And does it *really* make a difference? The strength of the global capital markets of the last decade or more has meant that most investors have done fairly well, regardless of the structures, processes and strategies employed. In short, almost everything has gone up and most have 'done well'. But as the COVID-19 market meltdown of 2020 reminded us, markets go down as well as up, so investors need to have in place robust structures, policies and procedures that help guide their investment programmes.

In this paper, we will discuss the elements of good governance, much of which has been gleaned over decades of working with clients of all shapes and sizes around the world. We will highlight that the principles of good investment governance are universal and that local investors, big and small, can take a lead from some of the most sophisticated and well-resourced investors on the planet in developing processes and structures that are right for them.

What is investment governance?

Investment governance is not investment management. Investment management is the process of implementing investment portfolios through selecting fund managers or buying and selling securities directly. In contrast, investment governance describes how investors and their investment programmes are developed and then overseen through the adoption of structures, policies, processes and procedures. Done well, investment governance fosters effective stewardship of assets. Done badly, it can be catastrophic. Therefore, it should be an important consideration for all investment fiduciaries.

To be successful, governance structures and processes should be well defined so that those involved know who is responsible for what decision and when that takes place within the investment management process. For example, descriptions of the:

1. Roles and responsibilities, i.e. what the Board of Directors, Investment Committee, advisers, fund managers and/or staff are responsible for.
2. Investment and decision-making process, i.e. what decisions are made and how they are made.
3. Items that are delegated, i.e. what stages of the investment process are delegated and to whom.
4. Reporting and review process, i.e. how risk, compliance, performance and outcomes are regularly tracked and assessed.

Permeating all the above should be the best interests of the beneficiaries. Sometimes the beneficiary is easily identified, such as the KiwiSaver member in a KiwiSaver scheme. However, other times it can be more challenging. In the case of New Zealand's Community Trusts or some charitable funds, is the 'beneficiary' the current generation or is there a need to maintain intergenerational equity through managing in the best interests of both current and future generations? For commercial organisations (or corporate sponsors of retirement schemes), how are board and investment committee members to balance the sometimes competing interests of trying to serve their beneficiaries in their role as fiduciaries while also trying to deliver a profit to its shareholders (or minimise costs in the case of a corporate sponsor of a fund)? What – *who* – is most important?

While such conflicts will not be completely resolved by the development of good governance structures and policies, having the guardrails in place should help mitigate some of the risks of taking actions, deliberate or otherwise, that are not in the best interests of the beneficiaries. As vital as the various layers of governance are to the success of a programme, we can never lose sight of what is really important; the beneficiary on whose behalf the funds are managed.

Common structures at investment organisations

In most investment organisations and funds, it is relatively easy to identify three different types of roles: the governing fiduciary, the managing fiduciary and the operating fiduciary. In some cases, these three roles are undertaken by separate parties, i.e. a three-tier system, while in other cases there is some overlap of responsibility and execution, i.e. a two-tier system. There may be additional parties, such as specialist advisors, investment consultants, sub-committees or related officials or parties that contribute to one or more of the governance layers. Whatever the situation, the delineation of responsibilities should be clearly articulated and documented so that those involved are clear as to who is responsible for what.

In most organisations it is the governing fiduciaries that set the mission, develop strategy and review progress. Governing fiduciaries in investment organisations are usually boards of directors or trustees. In some cases, they may be supplemented by an investment committee. These groups typically set the objective, identify core belief sets and determine the risk appetite that will guide all involved and eventually be reflected in the broad investment strategy and approach.

At the other end of the chain, the operating fiduciaries make the investment and execution decisions. These decisions, such as buying or selling securities, require day-to-day attention and are invariably made by investment professionals such as investment managers. These professionals need to be hired (and possibly fired) and organised into a coherent structure by the managing fiduciaries.

The managing fiduciaries select the operating fiduciaries as being fit for the purpose of making the relevant investment decisions, and structure them in such a way that, when the full complement of operating fiduciaries has been hired, the investment decisions in aggregate reflect both the asset allocation policy and risk appetite as well as the underlying beliefs as articulated by the governing fiduciaries.

As noted above, it is certainly possible, and sometimes desirable, that one person or group plays more than one role (e.g. a finance director who sits on the board of the pension scheme and overseas the operation of the scheme). But it is still useful to think of the three roles as different and to think of people wearing multiple hats when they hold multiple roles, rather than simply to think of the people involved. By focusing on the roles, rather than the people, it helps to develop structures that outlive the current personnel; a key principle in the development of a sound investment governance model.

Exhibit 1 below summarises the core component of the typical institutional investment governance structure.

Exhibit 1: Core components of typical governance structure

FIDUCIARY LEVEL	ROLE	RESPONSIBILITY	TYPICAL GOVERNING DOCUMENTS	
Governing	Board of Directors, Board of Trustees (sometimes includes Board Investment Committee or organisation CEO)	Periodic/calendar time functions, i.e. quarterly meetings • Establish mission and objectives • Define governance policies and structure • Define liquidity and risk tolerance • Set asset allocation and investment policies • Define Responsible Investment principles • Ongoing oversight of investment programme	Legislation, mission statement, board charter, rules of procedure, founding trust deeds, governing documents, Investment Committee Charter	**Plan**
Managing	Internal CIO and staff; Internal investment committee; Outsourced Chief Investment Officer / Implemented Consultant	• Ongoing/day-to-day functions • Determine asset class strategy and portfolio structure • Implement asset allocation • Maintain conformance to policies, i.e. invest appropriately, facilitate cashflows, rebalancing • Select and monitor investment managers	Statement of Investment Policies and Objectives (SIPO), Outsourcing Agreement	**Manage**
Operating	Implementation professionals both internal and external, i.e. portfolio managers and analysts; traders, custodian	Ongoing/real-time functions, i.e. full-time role • Portfolio implementation – security selection; risk management • Execution – buying and selling of securities • Compliance and risk management • Administration – middle and back office functions, reporting • Custody of assets	Investment Management Agreements (IMA), Statement of Investment Policies and Objectives (SIPO), fund guidelines, Product Disclosure Statements	**Implement**

Source: Russell Investments, 2021.

How decisions are made – the decision-making process

The identification of the distinct stages of the investment decision-making process, along with the assignment of responsibility, plays an important part of effective investment governance. This promotes accountability for those making the choices and helps to measure the success or otherwise of different decisions made.

A general principle in the institutional investment decision-making process is that decisions should be made by those *most equipped* to make them. For instance, the decision to buy shares in one listed company over another should be left to experienced and suitably qualified professional portfolio managers and analysts for whom buying shares is part of the daily function, rather than to a committee who meet once a quarter. Likewise, decisions to be made around how an investor views the complicated issue of Responsible Investment should be made by its governing fiduciaries who have clear insight into objectives (and values and beliefs), rather than by one of its operating fiduciaries, such as an investment professional on a trading desk with little direct knowledge of the investor's circumstances, experienced in financial markets as they may be.

For effective investment decision making, governing fiduciaries should retain responsibility for issues they are best positioned to address and delegate everything else. In general, the smaller the impact a given decision has on an institutional investor's long-term results, the further down the governance ladder it should be delegated.

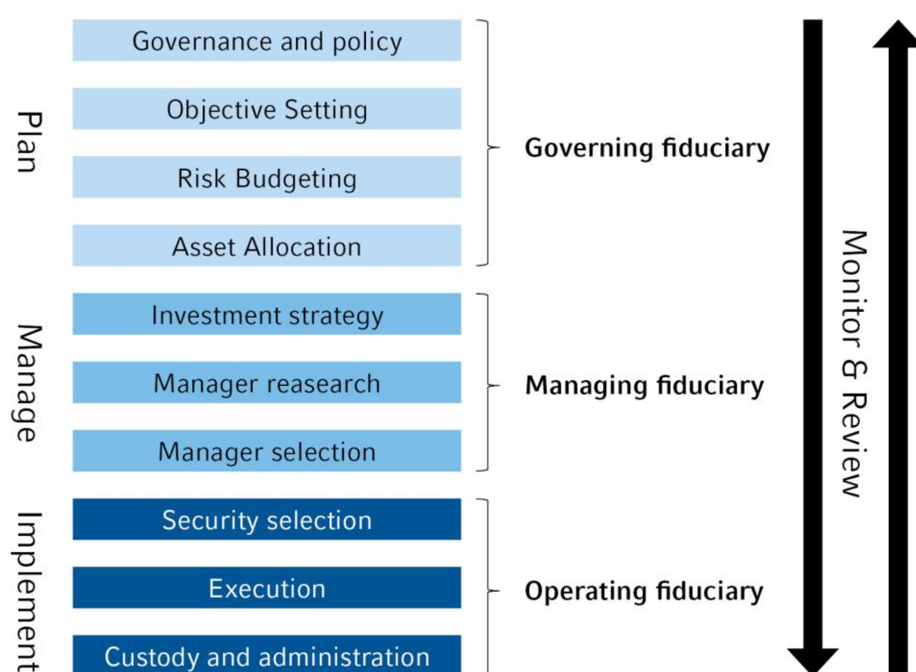
Examples of sub-optimal decision-making structures:

1. **Governing fiduciaries over-reaching:** a public pension scheme board that meets infrequently (i.e. quarterly), taking decisions on which listed shares to buy or sell or which segment of an asset class to tactically overweight or underweight.
2. **Managing fiduciary not qualified to 'manage' the portfolio:** a grants administrator at a charitable trust responsible for hiring, monitoring and firing fund managers, managing cash flows and rebalancing the trust's portfolio.
3. **Operating fiduciary given 'too much' responsibility:** a share broker managing the total portfolio for a school trust, taking decisions concerning risk tolerance, asset allocation and responsible investment policies that should have been made by fiduciaries further up the governance chain.

Governing fiduciaries should, for example, decide on risk appetite which will inform the long-term strategic asset allocation, the most important determinant of long-term performance. This is because they, more than anyone else, should understand the relevant objectives and constraints. Decisions such as security selection or tactical asset allocation, while important, have a secondary impact on long-term performance, and so it is appropriate that they be delegated to operating fiduciaries. Additionally, given these are ‘real-time’ or day-to-day decisions, they are ill-suited to committees or groups that meet infrequently.

Exhibit 2 below depicts the potential roles played by different fiduciary groups under Russell Investments’ idea of best practice decision-making structures. While each investor is unique, and we encourage development of structures that both play to their strengths and meet specific needs, this exhibit should be a good starting point.

Exhibit 2: Example of governance ladder – an effective decision-making framework



Source: Russell Investments, 2021

Seek advice and delegate where necessary

It is entirely appropriate – and recommended – for fiduciaries to seek advice and delegate certain functions. Governing boards meet relatively infrequently and are often not made up of investment professionals. One of their key roles is to engage the services of others that do have the experience and skillsets. This might mean the hiring of an investment consultant to advise or it could involve the setting up of a ‘Board Investment Committee’ made up of investment specialists responsible for oversight of key investment policy decisions. It will mean hiring fund managers to invest the portfolio in line with the objectives and risk appetite. In deciding what should be delegated, governing fiduciaries can assess the knowledge and experience required to take a decision as well as the nature of the various decisions made.

It is almost never appropriate for governing fiduciaries to maintain responsibility for decisions that need to be made quickly or regularly, e.g. security selection or tactical asset allocation. In retaining authority for decisions like these, fiduciaries are guilty of over-reach and in some cases may even increase their exposure to liability for breach of fiduciary duty and so forth.

In deciding what to outsource or delegate, investors need to make an assessment as to what is appropriate for their unique circumstances. A well-resourced, sovereign wealth fund or global fund manager may have less requirement for delegation than a corporate pension scheme with no permanent staff. However, even for them, it may make sense that some decisions are delegated.

While delegation of some important investment decisions is appropriate, governing fiduciaries cannot outsource responsibility. It may be that some board members or trustees do not feel qualified to make assessments about the desired risk-return characteristics of the fund they oversee. However, they should certainly be qualified to identify the objective of their fund and articulate its capacity to accept risk over time (based on their knowledge of both donors and the beneficiaries). What is the fund for? How much year-to-year volatility can we, as the directors, bear? And, given we are investing for the future, do we worry about short-term fluctuations at the risk of giving up potentially higher long-term growth?

By defining the capacity to accept risk and tolerate downside, as well as providing an understanding of the investment time horizon and regular spending needs, governing fiduciaries can provide ample details for professionals further down the governance chain to develop recommendations regarding the appropriate strategies to employ. Lack of investment experience need not be a hinderance to developing appropriate investment objectives and constraints.

Reporting and review

Informative and timely reporting is one of the key feedback mechanisms for verifying and evaluating investment activities and is a vital element of institutional investment management.

Reporting detail and frequency should increase as you move down the governance ladder. Governing fiduciaries typically meet a few times a year and so the reports delivered to them should be structured as high-level oversight reports. In contrast, managing fiduciaries usually meet more regularly and would expect to see more detailed reports. Finally, operating fiduciaries – the people or teams involved in the day-to-day – continuously engage in the management of the portfolios and will have access to a range of systems and reports to assist them in the discharge of their duties.

The development of an appropriate oversight report takes time and effort. When an oversight report provided to a board runs to dozens, or even hundreds, of pages filled with commentary, charts, numbers and bullet points, it ceases to be a useful document. All too often, in our experience at least, this is what governing fiduciaries receive. Indeed, this is a prime reason why some boards over-reach and do not delegate appropriately – issues may be brought to their attention that they feel compelled to opine on or address even though they fall far outside the remit of the governing fiduciary.

At the other end of the spectrum, some governing fiduciaries may feel totally overwhelmed by the reporting provided, i.e. not understand what they are looking at. As a result, they are unable to identify the issues that require their attention, which has the potential to result in governance slippage. Therefore, striking the right balance is important if the reports are going to assist the relevant fiduciaries in fulfilling their functions.

Those with the delegated authority to carry out a task, i.e. managing and operating fiduciaries, typically have much more detailed knowledge about their area than does the overseer. That is how it should be. The problem arises when decision makers present the overseer with all the details that they themselves consider. An overseer should not have to notice a detail buried deep in the report to find out that something is going wrong. That fact ought to be presented in a way that jumps out. Therefore, it is worth taking the time to customise an oversight report, because not only does it save the overseer time, it also helps the overseer to delegate with confidence.

Governance at KiwiSaver firms, asset managers and financial adviser groups:

- The principles of good governance apply to investment firms as much as to their institutional clients.
- Having the appropriate structures in place and the people to execute can be difficult for start-up or boutique firms where, out of necessity, people may be fulfilling multiple roles. It can be particularly challenging to provide separation and oversight of key functions such as portfolio management, risk and compliance. From an outside investor point of view, this increases the risk and suggests enhanced due diligence is warranted. For instance, are the people making investment decisions suitably qualified, experienced and resourced? Is there appropriate separation between investment and oversight? Does the firm have the financial resources to build and manage its affairs while making sufficient investments in systems and personnel?
- Fund managers and financial adviser groups often have similar three-tiered structures as described here, involving boards, investment committees and professional staff. These firms may also delegate extensively, e.g. in the management of international assets. As a prospective client, it is good to understand who has responsibility for what. In short, where the buck stops.
- ‘Blow-ups’ such as frauds or significant operational incidents at investment firms can often be attributed to governance lapses (i.e. limited oversight, lack of separation of duties, limited financial resources to compensate for errors etc.)
- Financial markets have no regard for quarterly meeting schedules – identify which decisions need to be made on a real-time basis and make sure they have been appropriately delegated.

What should an investment oversight report look like? It should help answer the following questions:

1. Are we on track to achieve our mission, i.e. how are things progressing relative to goals and expectations?
2. What is our current position, i.e. how are we invested versus our targets?
3. Where have we created or lost value, i.e. how have we done historically?
4. Are we being prudent, i.e. what are the various risks that we need to consider?

The report should be brief in that it focuses on the big picture, while also allowing the overseer to drill down if necessary. It should clearly state what the current position is and the relevant risk factors. The use of an exceptions type report is useful, focusing on items that are outside of policy and/or expectations. For instance, total portfolio active risk or volatility levels. Or actual asset allocation versus target asset allocation. The report should help the overseer understand if the various tasks are being done well.

The traffic light protocol (red, yellow, green) can be very helpful in that it focuses attention as necessary. It is the yellow material that needs a drilling-down and a discussion and the overseer should probably already be aware of any items that have been classified as red, i.e. requiring urgent attention. The green items – things that are progressing as expected and within the bounds of expectations – do not require significant discussion. These reports should, of course, be available promptly at the end of the reporting period.

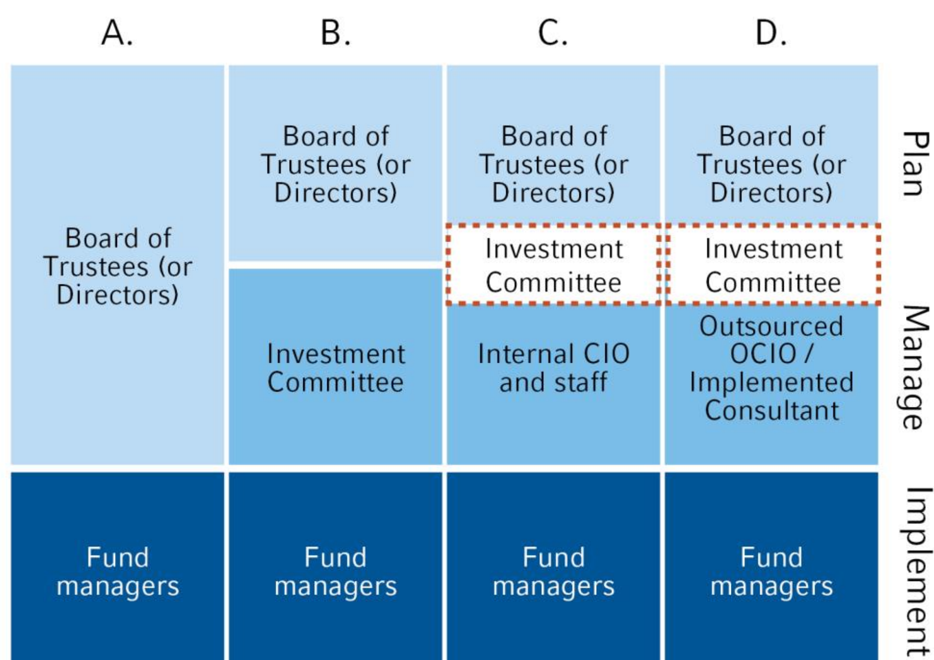
The reporting process and the reports produced should be developed with the overarching aim to help the fiduciaries carry out their duties and meet their responsibilities. They should be clear and concise with a focus on risks and tracking the progress towards meeting the objectives.

Some common organisation structures

We work with institutional investors around the world, many of which have different decision-making structures. In Exhibit 3 below, we highlight some of the more common structures, recognising that there is no single solution that is suitable for every investor and that these structures are not themselves mutually exclusive. The most effective structure for investors will be influenced by their circumstances, i.e. investment complexity, experience, access to in house resources and propensity and willingness to outsource to experts. We have assumed that portfolio implementation is through fund managers rather than the selection of stocks. Stock picking by governing or managing fiduciaries rarely appropriate in our view.

Many institutional investors utilise the services of outside advisors and investment consultants. In some cases, the roles and responsibilities of these advisors are directly codified into the governance documents and decision-making structures, while in others the relationships and responsibility are more informal. There may also be relationships with donors, government officials, plan sponsors or other parties to consider. The exhibit below does not reference these players, however they clearly can have an influential role within an organisation's decision-making structure.

Exhibit 3: Decision-making structures



Source: Russell Investments, 2021

Assigning responsibilities: a clear understanding of where the 'buck stops'

Identifying who does what and where the responsibility and accountability lies is a vitally important task of the governing fiduciary. In thinking about the various decisions that need to be taken, it can be helpful to review the investment process in a flow chart, similar to Exhibit 2 (or an accountability matrix as detailed in Exhibit 4 below), which identifies the key elements from the planning stage through to implementation and review. Responsibility can then be assigned to the various groups in the governance structure, with the authority noted. For instance, the governing board might be responsible for 'deciding' the objectives, risk appetite, policies and asset allocation and 'overseeing' everything else. The groups fulfilling the managing fiduciary role, such as an investment committee or an outsourced chief investment officer (OCIO), might 'advise' on those key strategic decisions while 'deciding' on asset class and investment strategy and fund manager selection. In addition to these roles, they would be responsible for 'overseeing' the operating fiduciaries who are responsible for 'deciding' the buying and selling of securities.

For illustrative purposes, we expand on the two decision-making structures: a straightforward board and fund manager structure, advised by an investment consultant (column A), and a more complicated structure involving an investment committee as well as an OCIO manager (column D).

Simple Board of Trustees/Fund Manager

When a fund's investment programme is relatively straightforward, it might make sense to adopt a two-tiered structure. Under this structure, the governing fiduciary, e.g. a board of trustees, with the help of advisors (such as an investment consultant) and any in-house resources, could set the investment strategy and oversee the investments themselves, i.e. act as both the governing fiduciary and the managing fiduciary. An example of where this structure might be appropriate would be at a small charity, where a relatively small asset pool is allocated to a single balanced fund that aligns with the risk profile and objectives of the investor. This structure is fairly common across smaller charitable trusts and similar investors. Exhibit 4 below illustrates the how this structure might work in practice.

Exhibit 4: Example of two-tiered decision and accountability matrix (simplified)

GROUP	GOVERNANCE OBJECTIVES, RISK	OVERALL INVESTMENT STRATEGY (SAA)	DEVELOP PORTFOLIO STRUCTURE AND STRATEGY	RESEARCH & SELECT MANAGERS	SECURITY SELECTION	KEY CONTROL MEASURE
Board	Decide	Decide	Decide	Decide	Oversee	Evaluation of asset managers
Asset managers					Decide	Audit versus guidelines and targets
Investment Consultant	Advise		Advise		Review	Regular review of services and advice
	Plan		**Manage**		**Implement**	**Review**

Source: Russell Investments, 2021

Outsourced Chief Investment Officer/Implemented Consulting

Over the last two decades, we have seen the rise of the OCIO or implemented consulting model a structure also known in some markets as Fiduciary Management. This approach has been widely embraced in the US, Europe, Australia and New Zealand, particularly for investors who do not have the resources or capabilities to fulfil the managing fiduciary function. For larger investment organisations, even those with internal resources, OCIO managers are sometimes hired alongside internal resources for portions of a total portfolio (e.g. the equity sleeve or the private assets sleeve).

This model does not remove the oversight and governance responsibilities from boards, investment committees or staff, but it can offer significant efficiencies (both cost and operational) and capability enhancements to a wide range of investors. Having a single entity with total portfolio oversight on a day-to-day basis is also an attractive element of this approach. A good OCIO can:

1. help governing fiduciaries, such as boards and their investment committees (where applicable) formulate investment objectives, develop policies, i.e. Responsible Investment, and design a strategy to increase the odds of achieving those objectives;
2. execute the investment strategy, including managing cashflows and rebalancing and the monitoring and management of underlying overlay and asset managers, i.e. the hiring and firing of managers;
3. control and monitor the risk and performance profile of the total portfolio and its constituents; and
4. develop an appropriate total portfolio reporting package to assist the governing fiduciaries in the discharge of their duties, e.g. tracking progress towards goals and monitoring current and prospective risks.

Many of the functions performed by OCIOs are similar to those executed by internal CIOs. However, due to economies of scale, OCIOs can provide a broader range of services and bring scale benefits.

Exhibit 5 below shows how an OCIO relationship might function in a situation where there is an investment committee sitting under a board.

Exhibit 5: Example of potential OCIO decision and accountability matrix (simplified)

GROUP	GOVERNANCE OBJECTIVES, RISK	OVERALL INVESTMENT STRATEGY (SAA)	DEVELOP PORTFOLIO STRUCTURE AND STRATEGY	RESEARCH & SELECT MANAGERS	SECURITY SELECTION	KEY CONTROL MEASURE
Board	Decide	Decide	Oversee	Oversee	Oversee	Evaluation of Investment Committee
Investment Committee	Advise	Advise	Decide	Oversee	Oversee	Evaluation of OCIO manager
OCIO Manager	Advise	Advise	Advise	Decide	Oversee	Evaluation of asset managers
Asset managers					Decide	Audit versus guidelines and targets
	Plan		**Manage**		**Implement**	**Review**

Source: Russell Investments, 2021

The matrices above illustrate how responsibility can be assigned appropriately. They provide a good overview of the decision structures and the respective fiduciary roles, i.e. who does what, when. It also clearly identifies with whom the 'buck stops'.

Simplicity and clarity in structure is generally preferred, however as investors get larger and more sophisticated it may be necessary to add additional governance layers such as specialist advisors or sub-committees. As noted earlier, where possible, decisions should be made by those most equipped to make them. So, for large scale investors with diverse portfolios and many managers, it might be that structures get quite complex. In these situations, it becomes even more important that roles and responsibilities are defined, with appropriate oversight, management and reporting.

One needs only to look at some of the debacles at large-scale investors, where individuals or small teams have generated outsized losses, to illustrate the risks of inadequate controls and oversight. By identifying the key elements of the investment process, and assigning responsibility for the doing, reviewing and oversight of those elements, investors can protect themselves against potentially costly lapses in governance.

The importance of governing documents

Development of good governance arrangements is helped by the creation of a range of foundational governance documents, mission statements and policies and procedures documents. As well as providing reference for current interested parties, the documents form the governance backbone of investment organisations, providing key details about purpose, objectives, structures, policies and investment strategy.

To be truly effective, the documents should, where possible, be 'living' in the sense that they are regularly reviewed and updated to reflect current circumstances. They should be vital reference documents that help to guide fiduciaries as they act on behalf of the beneficiaries and not become the output of 'box checking' exercises, with the documents destined for the electronic equivalent of a dusty old filing cabinet. Finally, they should be of a standard to outlive the people that fulfil respective functions within an organisation, assisting in the orderly transition of responsibilities from one party to the next.

Examples of foundational investment governance documents include:

- Trust deed.
- Statement of investment beliefs.
- Statement of Investment Policy and Objectives.
- Investment Committee terms of reference or charter.

- Responsible investment policies.
- Reserving and spending policies.

As with other governance items, clarity and brevity is to be encouraged. In many cases, investors have donors or beneficiaries who may be 'lay people' so it is incumbent that these documents be easily understood and digested by people without investment experience. Pages of investment 'gobbledygook', likely to be understood by practitioners alone, do not make for good foundational governance documents.

What makes a good Statement of Investment Policy and Objectives (SIPO)?

- The SIPO is the key investment governance document for most investors. It should provide all those involved with guidance as to how assets are to be managed.
- It should detail the governance structure and management framework, beliefs, strategies, expectations and note any relevant regulatory requirements.
- It may refer to additional documents that expand on the SIPO (e.g. Investment Beliefs, Responsible Investment policy).
- A good SIPO should cover the following:
  1. **Introduction and purpose:** details of the investor/plan/fund; overview of the SIPO and what it should be used for.
  2. **Governance:** description of the parties involved and their respective roles and responsibilities.
  3. **Objectives:** articulation of the investment objectives, including goals and constraints such as risk appetite.
  4. **Investment beliefs:** details of the key investment beliefs, which underpin how the assets are to be managed (and provide guardrails in difficult times).
  5. **Investment strategy, including asset allocation:** details of the approach, including asset allocation policies, asset classes and benchmarks, rebalancing ranges, liquidity etc.
  6. **Spending and reserving policies if applicable:** description of spending objectives and constraints and details of the reserving policies.
  7. **Risk management:** details of key risk management policies including rules around leverage, use of derivatives, lending, rebalancing, diversification, prohibited investments. It may also include details as to what is important (e.g. tracking error, volatility, drawdowns etc).
  8. **Responsible investing:** while it might be appropriate to have a separate policy on responsible investment, the SIPO could include reference to key responsible investment beliefs and policies.
  9. **Monitoring and review process:** details as to how often the SIPO is reviewed, the investment strategy and underlying investments and fund managers.
  10. **Appendices:** expand on items as necessary, for instance benchmarks, asset classes etc.

The Governance checklist

Every investor is unique. Those with governance responsibilities should consider structures, policies and procedures that make sense for their particularly circumstances and resources. However, below are some key questions that all governing fiduciaries could ask:

1. Have we clearly stated the purpose of the fund, its objectives and risk appetite?
2. Do we, the governing fiduciaries, focus on the big picture by taking responsibility for the most important strategic decisions and policy development, while delegating everything else?
3. Is the structure that we have in place appropriate given our scale and resources? Are the roles and responsibilities, including decision rights, clearly articulated? i.e. do we define who does what, when?

4. Do we have sufficiently experienced, skilled and resourced parties in the various governance layers? Are 'real time' functions delegated or outsourced appropriately? (i.e. are 'governing'. 'managing' and 'operating' fiduciaries roles and responsibilities defined?)
5. Have we detailed objectives, policies and procedures clearly in accessible governance documents?
6. Have we aligned our risk management framework with the structure of the fund or investment programme, its objectives and the risk appetite?
7. Is our regular reporting package helping us fulfil our governance responsibilities by succinctly providing high level performance, risk and asset allocation details of the portfolio(s) while drawing attention to items that require further attention?
8. Are we reviewing ourselves regularly and ensuring we are appropriately structured given our objectives, constraints and the prevailing market realities?

Conclusion – What separates the best from the rest?

As an organisation, we have worked alongside boards and investment committees for five decades. During this time, we have collectively observed investment programmes from around the world that have worked well, and others that have struggled get alignment and focus.[1] Below are some of the markers of the more successful governance structures and investment programmes we have encountered:

- The governing fiduciaries clearly and consistently communicate the fund's purpose (i.e. the overarching investment objective or the fund and/or organisation) and risk appetite.
- Roles and responsibilities are clearly articulated with authority appropriately delegated to staff, advisors and/or outsourced providers. Governing fiduciaries such as boards or part-time investment committees focus on 'governance' rather than 'management'. Those making the decisions have the necessary skills, experience and resources.
- There is organisational continuity with stability among the various governance layers (e.g. board or investment committee membership, outsourced providers and advisors).
- The governing fiduciaries adopt forward-looking perspectives focusing on the most important strategic decisions including the development and oversight of an appropriate risk management framework.
- There is a holistic approach to risk management, with emphasis on developing robust policies, procedures and reporting.
- There is an emphasis on building meaningful strategic partnerships with fewer external providers, than might be typical
- Guided by strong governance documents and policies, all levels of fiduciaries at successful funds tend to work together towards common goals and objectives.
- Recognising that markets change, and opportunities and risks evolve over time, the best funds are able to adapt as conditions warrant.
- There is a focus on long-term objectives and risk rather than short-term and peer-relative performance. Successful investors recognise that markets are complex and volatile and that long-term outcomes are what is ultimately important.

[1] We have drawn extensively on the insights of the following Russell Investments papers in this piece. Investment governance: A pragmatic update, Ezra., D (2010). What separates the best form the rest? Turner, K. (2012). Investment policy statement – Elements of a clearly defined IPS for non-profits, Coffey, G. (2019). We have also referenced other work developed by Russell Investments' past and present colleagues, particularly Julian Darby. We thank them for their assistance. For those interested in further reading on governance, we recommend the CFA Institute's Investment Governance for Fiduciaries, by Michael E. Drew and Adam N. Walk (2019).

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