

Dear Task Force Members,

While I do not know how helpful the best practices in Pension fund governance structure are to a political trust environment, there are some similarities and I share these concepts in case they may prove useful. These concepts are probably articulated best by Keith Ambachtsheer. His group looked at performance data, and are not just theorizing, and although the data is a bit noisy, it does validate some issues and the conclusions seem to make intuitive sense. Below is a brief synopsis of some of the more pertinent issues they isolated.

Within best practices of pension governance there are general speaking three sectors of governance responsibilities. They are:

1. **Governing fiduciary:** This is a group of individuals whose responsibilities are viewed from the macro level of the plan. They are primarily responsible for the broad policy issues. Included in these would be issues like goals of the plan; capital markets beliefs; spending and contribution issues and policies; liquidity guidelines; and asset allocation policy.
2. **Managing fiduciary:** This is an individual or team that takes the guidelines and policies from the governing fiduciaries, and develops and executes a plan of implementation for the fund. These would relate to issues like tactical asset allocation process if allowed; credit tilts and other biases that may be built into individual asset classes; and manager selection. Also a reporting structure is developed to assess whether the goals of the plan are being met, and policies are within compliance. They also develop a process and reports to assure the operating fiduciary's are performing as expected.
3. **Operating fiduciary:** These groups are the ones that actually buy the assets. They are typically the individual managers hired by the managing fiduciaries. These are typically external managers, however there are times when operating fiduciaries are also part of the managing fiduciary group. (Internal asset management)

This proved to be the best governance structure for pension plans, however there was a key element that is critical to the success of the plan. While the reporting nature of the different levels can appear to be something similar to a policing structure, this should not be the primary purpose. The best functioning governance structures were those with a strong trust and team work orientation between the various fiduciaries. To function otherwise leads to damaging influences on behavior and a significant reduction in results.

While there are a lot more details to the summary listed above, and these studies were specifically directed towards pension governance, there may be enough similarities to be of some use in our discussions.

It is a pleasure to serve with you all.

Thanks

Kent