

Fall 2017

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Coming Up

11th PAPERS Fall Workshop

Nov. 14-15, 2017

(Tuesday-Wednesday)

**Doubletree Hotel
Downtown Pittsburgh**

14th PAPERS Forum

May 22-23, 2018

(Tuesday-Wednesday)

**Hilton Hotel
Downtown Harrisburg**

Pittsburgh Hosts PAPERS 11th Annual Fall Workshop

November 14 –15, 2017

(Tuesday-Wednesday)

The DoubleTree By Hilton Hotel & Suites Pittsburgh Downtown
1 Bigelow Square, Pittsburgh, PA



Pittsburgh’s “Golden Triangle” at the confluence of the Allegheny, Monongahela and Ohio Rivers as viewed from the heights of nearby Mt. Washington.



Pennsylvania Association of Public Employee Retirement Systems

**See pages 3-6 for details about the PAPERS Fall
Workshop in Pittsburgh! Pension plan
representatives – please note the special guest
registration opportunity for non-member plans.**

PAPERS Directory

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From the Executive Director's Desk



It's difficult to believe summer is over especially since the first couple days of fall had beautiful and hot summer weather! But with the oncoming of fall we have much to look forward too and there are some exciting things happening at PAPERS.

Our Fall Workshop in November at the Doubletree in Pittsburgh is shaping up to be one of the best workshops ever. We have several members participating in panel discussions regarding investment policy statements, experience actuary studies, the benefits of adding real estate to your portfolio and even working with both defined contribution AND defined benefit plans. The workshop will have experts in all these areas and promises to have concrete and meaningful discussions with us all.

The most exciting news is the revamping of PAPERS certification program. The Executive Board of PAPERS created a brand new education committee a few months back. The committee has been working all summer on curriculum, presentations, and formatting for a Public Pension Professional certification. With a little luck we will have an announcement at the November workshop regarding the PPP certificate. There is more information in this newsletter regarding the workshop but please don't hesitate to call me or Doug if you have questions! I look forward to seeing everyone on November 14!

Karen Deklinski

PAPERS Executive Director

kdeklinski@msn.com

717-979-5788

CALLING ALL MEMBERS

If you are interested in volunteering to serve on the Education Committee or the Executive Board, please let us know. We will be selecting new officers soon and we welcome anyone interested in helping! Please let Karen know of your interest - kdeklinski@msn.com



Pennsylvania Association of Public Employee Retirement Systems

11th Annual Fall Workshop Program Agenda

As of 9/28/2016 – subject to change

The DoubleTree By Hilton Hotel & Suites Pittsburgh Downtown
1 Bigelow Square, Pittsburgh, PA

Tuesday, November 14, 2017

- 9:00 a.m.- 5:00 p.m. **Conference Registration/Exhibits**..... Meeting Rooms Foyer
- 9:00 a.m.-11:30 a.m. **Board/Corporate Advisory Committee Meeting** Scranton Room
- 12:30 p.m.- 1:30 p.m. **Opening Luncheon** Monongahela Room

All workshop sessions take place in the Allegheny-Ohio Rooms.

- 1:45 p.m.- 2:30 p.m. **Investing in Real Estate**
Speakers..... Meredith Despins, NAREIT
..... Andy Rubin, Fidelity
- 2:30 p.m.- 2:45 p.m. **Beverage Break**
- 2:45 p.m.- 3:30 p.m. **Are You Experienced?** *A member panel discussing experience actuary studies*
Moderator..... Charles Friedlander, Municipal Finance Partners
..... Timothy DeFoor, Dauphin County Controller
..... Ben Holland, Butler County Controller
- 3:30 p.m.- 4:15 p.m. **Brushing Up Your Investment Policy Statements**
PresenterElaina Spilove, UBS
- 4:15 p.m.- 5:00 p.m. **Long Bonds in the Short Run**
SpeakerR. Evan Inglis, Nuveen Asset Management
- 6:00 p.m.- 8:00 p.m. **Evening Event** Reception/Private Tour at Fort Pitt Museum, Point State Park

Wednesday, November 15, 2017

- 8:00 a.m.–12:00 p.m. **Conference Registration/Exhibits** Meeting Rooms Foyer
- 8:00 a.m. - 8:45 a.m. **Breakfast**..... Monongahela Room
- 9:00 a.m. - 9:45 a.m. **Defined Benefit & Defined Contribution Plans**
Speaker Bailey Devries, T Rowe Price
- 9:45 a.m. -10:30 a.m. **I Got Sunshine**
Speaker To be announced
- 10:30 a.m.-10:45 a.m. **Beverage Break**
- 10:45 a.m.-11:30 a.m. **Best Practices**
Speaker To be announced
- 11:30 a.m.-12:30 p.m. **Closing Luncheon**..... Monongahela Room

11th Annual PAPERS Fall Workshop

Downtown Pittsburgh, PA – November 14-15, 2017

In addition to outstanding educational sessions and the opportunity to meet with those involved in public pension work, we're also planning an evening networking/social reception at the historic Fort Pitt Museum in Point State Park (pictured on Page 1). Trolley transportation will be provided for PAPERS' guests between the hotel and museum.

Corporate member firms interested in corporate sponsorships and speaking opportunities on the agenda should contact PAPERS Executive Director Karen Deklinski (kdeklinski@msn.com) immediately.

If you're interested in overnight lodging for the Fall Workshop

The DoubleTree by Hilton Hotel & Suites Downtown
1 Bigelow Square, Pittsburgh, PA

Website:

<http://doubletree3.hilton.com/en/hotels/pennsylvania/doubletree-by-hilton-hotel-and-suites-pittsburgh-downtown-PITDTDT/index.html>

PAPERS Conference Rate: \$139/double or king + tax

Conference Rate Guaranteed only through October 14, 2017

For Reservations:

CALL the hotel directly at **412-281-5800** or the reservations line at **1-800-222-TREE (8733)** and mention **2017 PAPERS Fall Workshop** or group code "PAP"

RESERVE ON-LINE:

http://doubletree.hilton.com/en/dt/groups/personalized/P/PITDTDT-PAP-20171113/index.jhtml?WT.mc_id=POG

Registration for 11th Annual PAPERS Fall Workshop November 14-15, 2017

*The DoubleTree by Hilton Hotel & Suites Pittsburgh Downtown
1 Bigelow Square, Pittsburgh, PA*

**Each individual attending must submit a separate registration form.
Conference Registration & Hotel Reservation Deadline – Oct. 14, 2017**

Please indicate appropriate category (check one only):

Pension Plan Representatives

Public pension Plans with current (2017) PAPERS **Participating** Membership



First **TWO** individuals from pension plan – complimentary

Each additional individual:

\$50 Early bird registration payment received or postmarked by 10/14//2017

\$75 Standard registration payment made on or after 10/14/2017



Guest Registration – Special 1-time opportunity for representatives of non-member pension plans

Each individual:

\$50 Early bird registration payment received or postmarked by 10/14//2017

\$75 Standard registration payment made on or after 10/14/2017

Associate Member Representatives – *Firms providing investment management and legal services*

Current (2017) PAPERS **Associate** Membership required

\$400 Early bird registration payment received or postmarked by 10/14/2017

\$475 Standard registration payment made on or after 10/14/2017

Affiliate Member Representatives - *Firms providing consulting services, exclusive of investment/legal*

Current (2017) PAPERS **Affiliate** Membership required

\$200 Early bird registration payment received or postmarked by 10/14/2017

\$250 Standard registration payment made on or after 10/14/2017

Platinum Sponsors - Current (2017) PAPERS Associate or Affiliate Membership required

Four complimentary registrations

Each additional individual (refer to **Associate** or **Affiliate** Member rates above)

Gold or Silver Sponsors - Current (2017) PAPERS Associate or Affiliate Membership required

Two complimentary registrations

Each additional individual (refer to **Associate** or **Affiliate** Member rates above)

Registration form continues on reverse.

Individual's name _____

Preferred name for name tag _____

Representing (name of pension plan or firm) _____

Mailing address _____

City, State, Zip _____

Telephone number (_____) ____ - _____ E-mail address _____

Please check below all Fall Workshop events you will attend

Tuesday, Nov. 14, 2017

- Lunch
 Afternoon sessions
 Evening networking/social event

Wednesday, Nov. 15, 2017

- Continental breakfast
 Morning sessions
 Lunch

- Check if interested in PPCP (Public Pension Certified Professional) Program
(details of new program to be announced shortly)

Full payment of any fees due must be included with this registration.

You may pay the registration fee either by check or electronically via PayPal.

1. **To pay by check.** Please make check payable to: **PAPERS** and return with this application to: **PAPERS, P.O. Box 61543, Harrisburg, PA 17106-1543**
2. **To use PayPal.** Please access the PAPERS website (www.pa-pers.org) and click on "Spring Forum". Select the appropriate type of registration from the drop down box and follow the directions to have PayPal transfer the applicable fees automatically from your bank account to PAPERS. In addition to PayPal payment, you must also submit this registration form. Your completed conference registration form may either be mailed to: **PAPERS, PO Box 61543, Harrisburg, PA 17106-1543** or scanned, saved and e-mailed to: **douglas.b@verizon.net**.

The PAPERS Fall Workshop group rate for overnight lodging of \$139 plus tax at The Doubletree Pittsburgh Downtown is guaranteed only for reservations made on or before 10/14/2017.

A current (2017) PAPERS membership (Participating, Associate or Affiliate) entitles your representatives to attend PAPERS Spring Forum and/or Fall Workshop conferences. Check below for details on your pension plan or firm becoming a PAPERS member OR click on <http://www.pa-pers.org/newweb/join.html>.

Becoming a PAPERS Member is Easy

A current year PAPERS membership is required for attendance at the Spring Forum and/or Fall Workshop and to receive credits in the CPE and/or PPCP programs.

Public employee retirement systems (pension funds) can apply to become **Participating Members**; each Participating Membership includes one complimentary admission to both the Spring Forum and the Fall Workshop. Corporate providers of service to pension plans can apply to become **Associate or Affiliate Members**. For details, check the membership section of the PAPERS website www.pa-pers.org or contact:

PAPERS
PO Box 61543
Harrisburg, PA 17106-1543

Douglas A. Bonsall
Phone: 717-921-1957; e-mail: douglas.b@verizon.net

PAPERS' Membership & Sponsor Categories

- **Participating** (\$95) - *Public employee retirement systems (pension funds)*
- **Associate** (\$1,000) - *Corporate providers of legal and investment services to pension plans*
- **Affiliate** (\$500) - *Corporate providers of other services, exclusive of legal and investment services, to pension funds.*

Corporate (Associate & Affiliate) Members also have the additional opportunity to become sponsors for PAPERS' two annual conferences – the Spring Forum and the Fall Workshop. Sponsors receive recognition in the printed and on-line materials produced for the conferences and also receive priority consideration to provide speakers and/or make presentations. The three categories of sponsorships for each conference are:

- **Platinum** - \$5,000
- **Gold** - \$3,000
- **Silver** - \$2,500

More details at: <http://www.pa-pers.org/documents/2017MembershipandSponsorFees.pdf>

Ten Things to Watch in September

As summer ends, geopolitical tensions ramp up

Submitted by: **Kristina Hooper CFP, CAIA, CIMA, CFC - Global Market Strategist with Invesco**

Ms. Hooper has 21 years of investment industry experience. Prior to joining Invesco, Ms. Hooper was the US investment strategist at Allianz Global Investors. She has regularly been quoted in The Wall Street Journal, The New York Times, Reuters and other financial news publications. She was featured on the cover of the January 2015 issue of Kiplinger's magazine, and has appeared regularly on CNBC and Reuters TV.

Ms. Hooper earned a BA degree, from Wellesley College; a J.D. from Pace University School of Law, an MBA in finance from New York University and a master's degree from the Cornell University School of Industrial and Labor Relations.

Investors and politicians are returning from their summer vacations with a long list of issues confronting them in September. Below, I summarize 10 important things to watch.

1. North Korea. Geopolitical risk has risen, particularly with increased missile tests and growing tension between North Korea and the US, Japan and South Korea. The yield on the Japanese 10-year bond fell below zero last week as investors in the region fled to safe haven assets. And, as of this writing, the yield on the US 10-year Treasury bond hit its lowest level of the year on Sept. 5.1 North Korea recently announced it can fit a hydrogen bomb on an intercontinental ballistic missile, and it is racing to develop nuclear weapons capabilities — a frightening development for the free world. The \$64,000 question is whether the US and its allies will be able to kick the can down the road, as has been done for the past 25 or so years, or will they be forced to take action. One issue is that these allies don't seem to be on the same page when it comes to how to deal with this nuclear threat, which arguably reflects differing levels of geographical proximity to North Korea. Another important question is whether the US' emphasis on tying trade to this issue — with regard to both China and South Korea — will turn out to be a brilliant move or a mistake. We will want to watch the situation closely, recognizing that any deterioration will likely be reflected in a further move to safe haven assets such as Japanese government bonds, US Treasuries and gold. I believe it is even possible for the US 10-year Treasury yield to fall below 2% if the situation worsens significantly.

2. Brexit negotiations. The third installment of Brexit negotiations concluded last week with reportedly little accomplished. This is concerning given that the UK has only 18 months to accomplish a long and arduous list of tasks: 1) complete the negotiations, including the "divorce bill" and the trade relationship post-Brexit, 2) obtain approval from the European Council, 3) obtain the approval of at least 20 of the 27 member states (with 65% of the population), and 4) bring the agreement to the European Parliament for ratification. The good news is that the UK announced it will intensify talks by meeting more often than just one week a month. Hopefully that will enable significant progress in the coming months, which should keep a lid on investor anxiety.

3. The German general elections. On Sept. 24, Germans will go to the polls to effectively elect the leader of the largest economy in the eurozone. Chancellor Angela Merkel's party is far in the lead, but it does not have a majority and, as in the past, must form a coalition government. It could do so with the parties it currently has an alliance with, or, depending on the outcome of the elections, a coalition could include the Free Democratic party, a recently revived pro-business party with an interesting agenda at a time when some businesses seem to be getting less positive on the economy. For example, the ZEW Economic Sentiment Survey saw a decline in sentiment from 19.5% in April to 10.0% in August.2 I believe that this party, with its focus on technological innovation and involving business leaders in government, could inject some change and excitement into Germany and its economy if it gains enough traction in the elections.

To read the full list of items, go to <https://www.blog.invesco.us.com/geopolitical-market-tensions-september>

Philadelphia Pension Returns 12.9% in FY 2017

Top performances in stocks, equities

(Reprinted with permission of NCPERS)

The \$4.7 billion City of Philadelphia Employees Retirement System saw stocks and equities help produce a 12.9% return for the year ended June 30, 2017, more than a point higher than the 11.5% benchmark.

Driven by gains from various Russell and MSCI indices, US equities, non-US developed equities, and non-US equity emerging markets were the top drivers of the fund's fiscal year performance, achieving 19.6%, 20%, and 22.4% returns for the period, respectively. Three-year returns were 7.8%, 0.4%, and 1.4%, respectively. Five-year returns were 13.7%, 7.3%, and 2.6%, respectively. Only 10-year returns for the US and Non-US developed equity markets were available at 7% and 1%, respectively, as emerging markets have only been in inception since January 2009—and have provided 9.7% returns since then.

Absolute returns, which includes hedge funds, returned 13.5% in the fiscal year. For the three-, five-, and 10-year period, the class returned 1.1%, 4%, and 1.8%, respectively.

Real assets returned 5.7%, beating their 1.6% benchmark for the fiscal year, also steamrolling its -5.7% three-year benchmark at 0.2%. Public real estate reported 0.5% while private real estate reported 7.7% returns—on par with its fiscal benchmark, but under par from its three- and five-year benchmarks. Open-ended real estate has returned 2.2% since its January inception.

MLPs produced an 1.8% gain, returning -10% for the three-year period and 5.2% in the five-year period.

The only negative fiscal returns came from private energy/infrastructure at -1.9%. They were -10.5% in the three-year period, and 1.6% for the five-year period.

Rounding out the report was private assets, which returned 5.8% for the period ending June 30, 2017.

Williams & Jensen – Washington Update

(Reprinted with permission of NCPERS)

September 8, 2017 Williams & Jensen, PLLC 701 8th Street, N.W. Suite 500 Washington, D.C. 20001 Telephone: (202) 659-8201 ax: (202) 659-5249 www.williamsandjensen.com

TAX: President Trump Continues Tax Reform Push

Key Points:

- *President Trump meets with Big Six on tax reform and traveled to North Dakota to deliver second speech on need for tax reform; joined onstage by Senator Heidi Heitkamp.*
- *House Speaker Paul Ryan Aims for Corporate Tax Rate in Low-to Mid-20 Percent.*

President Donald Trump met with the group known as the Big Six, which includes leaders of the House and Senate, the chairmen of both tax-writing committees, Treasury Secretary Steven Mnuchin and National Economic Council Director Gary Cohn to discuss tax reform. The next day, President Trump gave a speech on tax reform in North Dakota alongside the state's Democratic Senator Heidi Heitkamp. In the speech, Trump reiterated his call for a 15 percent corporate tax rate saying his administration is "working with Congress to develop a plan." Separately, President Trump published an op-ed in the *Milwaukee Journal Sentinel*. In the article, Trump again stated that a lower corporate tax rate would benefit American workers by writing "large corporations have changed their business models to export jobs to other countries and then ship their goods back to the United States."

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Washington Update

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At a tax forum on Thursday, House Speaker Paul Ryan said the GOP tax plan will aim for a “realistic” corporate tax rate in the low-to mid-20 percent. In response to a question about reaching a 15 percent corporate tax rate, Speaker Ryan said that the “numbers are hard to make that work.” Ryan said the goal is to introduce a plan this fall and pass tax code revamp later this year. However, Ryan would not commit to releasing a plan this month saying “I’ll leave it up to the tax writers as to when they’ll release their template.

House Panel Holds Hearing on FINRA Oversight

Key Point:

- *The Subcommittee heard from FINRA CEO Robert Cook, and examined a variety of issues including capital formation, maker-taker exchange model, the fiduciary duty rule, and the Consolidated Audit Trail.*

On September 7, the House Financial Services Committee’s Subcommittee on Capital Markets, Securities, and Investment held a hearing entitled “Oversight of the Financial Industry Regulatory Authority.” The Subcommittee received testimony from Financial Industry Regulatory Authority (FINRA) CEO Robert Cook. Chairman Bill Huizenga (R-MI) stated FINRA is the primary regulatory authority for broker-dealers and plays an important role in ensuring the markets are fair for investors. He noted many have suggested that FINRA has shifted into more of a federal regulatory role. Huizenga noted the significant changes which have been undertaken at FINRA since Robert Cook was hired. He said “FINRA 360” is a multi-year initiative focused on continued improvement and ensuring that any changes will be made in phases. He stated Cook has engaged in a listening tour about what FINRA is doing well and what can be done better.

Chairman Bill Huizenga (R-MI) expressed concern with the declining number of companies going public, noting that SEC Chairman Jay Clayton has shared similar concerns. He asked how FINRA can encourage more companies to go public and promote other ways to raise capital. Cook said FINRA is committed to promoting capital formation. He noted that FINRA recently requested comment on all of its rules on capital raising. He stated that FINRA finalized a new ruleset for capital acquisition brokers, which is meant to be tailored and streamlined. He said 30 capital acquisition brokers have registered. He said FINRA regulates a number of funding portals under the JOBS Act.

Representative Stephen Lynch (D-MA) asked if FINRA will examine best execution and conflicts within the “maker-taker” exchange del. Cook said best execution is a vital part of ensuring that customers receive the best prices. He stated that the SEC’s Equity Market Structure Advisory Committee (EMSAC) has examined this issue and called for a pilot program. He noted that FINRA issued guidance on best execution and reviewed firms’ best execution practices. Lynch said he as a bill to create a pilot program, but he has not been successful in getting it passed.

Representatives Bruce Poliquin (R-ME) and Ann Wagner (R-MO) spoke in opposition to the Department of Labor’s fiduciary duty rule, contending that it will prevent small savers from obtaining access to financial advice. Cook said smaller firms are concerned about the compliance burdens of the rules. He stated that large firms have indicated that they are able to comply. He added that it would be helpful to have a uniform standard.

Representatives Brad Sherman (D-CA) and French Hill (R-AR) raised concerns with the data security of the Consolidated Audit Trail (CAT). Hill asked if CAT implementation should be delayed. Cook said there have been many delays already, but stressed the need to ensure that personally identifiable information (PII) is protected. He questioned whether PII needs to be collected; suggesting that large trader IDs could be used instead. Representative Warren Davidson (R-OH) stressed the need to avoid duplication between the CAT and existing audit trails. He asked if there is transition path to phase out the existing audit trails. Cook said the goal is for CAT to replace the existing audit trails. He said FINRA has a rule filing pending with the SEC to phase out the existing audit trail. He said the intent is to ensure that the CAT has adequate data integrity before phasing out the current audit trail.

Outsourced Chief Investment Officer (OCIO) Solution

(Reprinted with permission of NCPERS)

The National Conference on Public Employee Retirement Systems (NCPERS) recently interviewed Executive Director Greta Tinaglia from the Fulton County Public Schools pension board, and Delegated (OCIO) Solutions Director Janice Gonzalez from Aon Hewitt Investment Consulting about their experiences with Outsourced Chief Investment Officer (OCIO) mandates.

NCPERS: Outsourced Chief Investment Officer (OCIO) mandates seem to be getting more attention now. Can you talk a little about what they are?

Gonzalez: An OCIO has many of the same responsibilities as a traditional investment consultant, and also has the authority to make certain investment decisions, such as rebalancing and selecting investment managers. The decisions the OCIO can execute are limited, and the OCIO takes fiduciary responsibility for them. Another way of thinking about this is that the OCIO is delegated certain responsibilities for managing their client's portfolio.

Regarding mandates, OCIO specific mandates are not as common as traditional searches. However, we're beginning to see more RFP's with an 'open' submission format; an RFP format that creates an opportunity for both traditional consultants and OCIO providers to participate.

NCPERS: Why do public plan sponsors switch to an OCIO approach?

Tinaglia: For the Fulton County Public Schools, we started using an OCIO approach about a year ago. We were originally just looking to do an RFP for a traditional (investment) consultant, but we found the OCIO approach more compelling as we learned more about it. In the traditional approach, the consultants drive the decision-making process, but don't have accountability because they can't execute the portfolio. The OCIO approach gives our experts more authority and accountability.

Gonzalez: We also see other pension funds considering OCIO mandates because of resource constraints and investment goals. Midsized to smaller public pension funds are starting to consider the OCIO model for a more efficient process, for access to alternative investments typically reserved for larger pension funds, and for fee savings.

NCPERS: Did delegating investment responsibilities to an OCIO result in members of the board losing control?

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Outsourced Chief Investment Officer Solution

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cTinaglia: Yes and no. Yes, in the sense that the board no longer controls decisions about day-to-day issues like rebalancing and hiring and firing managers. But this has actually been good for the plan because these things are done more professionally by the OCIO provider. So the board actually has greater focus on the policy level, which we view as good governance.

NCPERS: What types of public plan sponsors do you think would be best-suited for an OCIO arrangement?

Tinaglia: We thought our plan size made us really well-suited. We're large enough so we felt like we needed to devote meaningful resources, but small enough so we didn't feel like it would be a good use of resources to build all the capabilities needed in-house.

Gonzalez: In the public sector, we've found that midsized to smaller (\$1 billion or less in assets under management) pension funds with limited internal resources, investment expertise, and a need to reduce fees tend to be in the sweet spot for an OCIO.

NCPERS: How is the OCIO solution similar to or different from what you expected?

Tinaglia: It was a lot easier than what I expected. I knew we'd get some operational relief, but also thought there would be more bureaucracy. Also, it brought down our fees materially.

NCPERS: Thank you both for sharing your insights

AHIC Relationship with Client Investment Committee

	Traditional/Advisory	Limited Discretion / Directive	Delegated – OCIO
Strategic Asset Allocation	Shared with Committee	Shared with Committee	Shared with Committee
Investment Policy	Shared with Committee	Shared with Committee	Shared with Committee
Tactical Investment Strategy (e.g., Medium-Term Views)	<i>Advisory</i>	Discretionary	Discretionary
Trading, Rebalancing, and Cash Flow Management	<i>Advisory</i>	Discretionary	Discretionary
Daily Monitoring	<i>Advisory</i>	Discretionary	Discretionary
Investment Manager Selection/ Termination	<i>Advisory</i>	Various Discretionary Levels	Discretionary
Reporting	Monthly Flash Reports (if needed); Quarterly Investment Reports; Manager Flash Reports	Daily access online; Monthly Flash Reports (if needed); Quarterly Investment Reports; Manager Flash Reports	Daily access online; Monthly Flash Reports (if needed); Quarterly Investment Reports; Manager Flash Reports



The Influence of Governance on Success

First Quarter 2017

Submitted by: Aon Hewitt Investment Consulting

Investment success comes from three major factors:

- **Skill**
- **Luck**
- **Good governance**

We believe that good governance may be the most neglected discussion topic in terms of investment success. We define “governance” as the structure, manner, and process by which an entity exercises authority or controls. “Good governance” is having a decision-making framework and processes that make effective use of the skills and resources available. Governance is neglected in many cases as it requires deep introspection of an oversight body’s effectiveness. Good governance is synonymous with prudent decision making and requires the decision-making body to reflect on its processes, capabilities, strengths/weaknesses, and success (or lack thereof). However, changing established processes or personnel can be challenging. For those on the “inside” of decision-making processes, factors influencing success include (1) awareness, (2) clear documentation about roles and responsibilities, (3) ability and/or willingness to measure success, (4) understanding when and how to delegate to experts, and (5) knowing possible solutions to governance issues. Regardless of the reasons, we frequently hear clients voice concerns that their decision-making processes are not firing on all cylinders.

For those motivated to achieving good governance, the signals for assessing progress are noisy because governance and investment results are not perfectly aligned. We illustrate this concept with the exhibit to the right.

Even hindsight is not 20/20, as there are psychological biases that can make people mistake “lucky” scenarios for skill or mistake “unlucky” scenarios for needing change. Such mistakes can lead to bad decisions about retaining or changing strategies.

We strive to make our advice not just about technical investment issues, but also about helping improve all facets of our clients’ investment programs. We believe that good governance is fundamental. We’re continuing to develop new tools and approaches for effective governance, and we look forward to helping you navigate toward truly good governance and successful investment results.

