

The Trustee toolkit downloadable

An introduction to investment

Scenario four

In this scenario the trustees review the quarterly performance of their investments and agree to spend more time focused on investment matters by way of an investment sub-committee.

As you work through this scenario you will be tested on your knowledge at decision points. Here you will have the option to work through a related technical tutorial before returning to the scenario or you can skip the tutorial. You can always work through the tutorial separately later if you would prefer.

This scenario includes one tutorial:

- ▶ Reviewing investments

Glossary

A detailed glossary of technical terms can be downloaded from the Resources tab when you log in at www.trusteetoolkit.com

Performance review



Edmund kicks off the discussion about performance of the portfolio in the DB scheme and the DC scheme's default arrangement. He says: "Tony was able to get all of the information we needed and now that you've all had a chance to read the investment review, it won't have escaped your notice that the value of the fund in the DB scheme has hardly increased. This is despite the fact that contributions have been going in over the whole period. We're by no means the only pension scheme facing this situation. Nevertheless, I think it is time we reviewed our investments in this section of the scheme. The default arrangement in the DC scheme has also suffered. It seems that over the past 12 months the underperformance has been gathering pace."

Adrian says: "I'm surprised that the DB assets are not performing better as equities have been performing well."

Edmund says: "It's true that equities have been doing well lately. Bonds, on the other hand, aren't giving as good a return as they usually do and we are heavily weighted towards bonds. If we compare the performance to a similarly weighted index, the fund has performed roughly in line with the benchmark."

Charlotte says: "That's right. And, in looking at our asset mix, we have to consider a number of things – including when our members' pensions will become payable. We shall have to consider it all in relation to our particular circumstances. I'm also concerned about the default arrangement. It does seem to be underperforming both the benchmark and the objective, and the gap is getting wider."

Alicia says: "That's very worrying as we have a large proportion of members invested in the default arrangement."

Rodney says: "I'm concerned about some of the alternative funds offered to members in the DC scheme. Looking at their performance and the objectives of the funds, there seems to be some which are not performing as we would expect."



Decision point: Reviewing the options

The board looks at the performance of three of the alternative investment options provided to members in the DC scheme. Which three statements made are correct?

Fund	Target	Performance		
		At 3 months	At 1 year	At 5 years
Benchmark index	N/a	-3%	5%	9%
A	Match benchmark	-6%	5%	9%
B	Benchmark +1%	-3%	4%	8%
C	Benchmark +2%	-1%	7%	11%

1. All three funds have gone down in value in the last three months, these funds should be replaced
2. Fund A has recently underperformed compared to the benchmark, we should find out why and monitor this fund more closely
3. Fund B has consistently underperformed compared to its target, we should find out why and look at alternative options
4. Fund C is the only fund to be achieving its target, we should continue to monitor as we are now

Answers at the back



Need help with this question? Read the [Tutorial 'Reviewing investments'](#)

Investment sub-committee?

The discussion continues regarding the investment performance, but you all seem to be finding it hard to come to any definite decision on what to do next. Charlotte has a suggestion. She says: “It’s essential to find a way to manage our investments more effectively. One possibility that I’ve seen work well on other boards is to appoint an investment sub-committee. It would give us the opportunity to spend more time on considering the DB scheme and the options for the DC scheme members. A subcommittee would focus on that and that alone, and report back to the board.”

Edmund asks: “Who would be on it? Presumably if we needed expert help, we might have to pay them. Would the employer do that?”

Tony says: “The board already has terms of reference which allow us to set up sub-committees, and they probably answer that question. Would you like me to dig them out?”

Charlotte says: “Thanks Tony, that would be really helpful. I think I could also find some specimen terms of reference for sub-committees. My guess is that most of the members would be drawn from the board. Are we agreed in principle that it’s a good idea? If so, there are still some questions I need to answer. I’ll email you about those, but we could decide now which trustees will be on the sub-committee.”

Who’s on the sub-committee?

It is agreed that the sub-committee will review Charlotte’s specimen terms of reference at its first meeting and take any recommendations back to the board. But who is on the sub-committee?

Member one

Charlotte is elected. Her expertise and experience of other trustee boards will, as always, be invaluable. However, it would be inappropriate for her to chair the sub-committee when she chairs the main board, so she will be an ordinary member.

Member two

Edmund, with his financial expertise, is an obvious candidate. You and your fellow trustees agree unanimously that he should chair the investment sub-committee.

Member three

The third member is – to your surprise – you! Charlotte feels it’s important to have a member-nominated trustee (MNT). Alicia and Rodney have both firmly ruled themselves out. Edmund points out that you’ve already taken an interest and showed aptitude. And anyway, he can point you in the direction of any further learning you might need.

Member four

You and your fellow trustees also agree that Charlotte and Edmund will approach the employer to see if he will be prepared to pay for an expert to help the investment sub-committee. This expert will advise on decisions and help the other members in their understanding of investment matters.

Rounding up

Tony schedules the first meeting of the investment sub-committee. The remaining items are dealt with and the meeting closes.

Now that you have completed this scenario we would recommend that you begin to work through the 'Check your scheme' worksheet for this module.

Answers

Decision point: Reviewing the options

All except the first answer are correct. Although all funds have gone down in value recently, this does not necessarily mean these funds should be replaced.

Fund A has underperformed the benchmark, so it would be sensible find out why and to monitor performance more closely. There could have been a change in the fund in the past few months which may have caused this issue as the fund had performed well up until then.

Fund B has underperformed its target over every time period. It is sensible to find out why but also to look at alternatives as the trustees may decide to replace this fund.

Fund C is the only fund of the three to be achieving its target over all three time periods. The trustees should continue to monitor the fund but there is no need for further action at this point.