Investment Governance

Trustee board's role

The ultimate responsibility for a scheme's investment sits with a trustee board. Whilst decisions and tasks may be delegated (and it is important to obtain relevant professional advice) the trustee board must retain effective control, intervene when problems present themselves and give direction. It is therefore important that roles and responsibilities are clearly identified. The trustee board may be able to improve investment governance by setting up an investment sub-committee.

Example table of accountabilities;

	Investment governance decision (or process)	Decision-maker for trust-based schemes
Governance structure	Appointment of trustees	Employer*
	Consider establishing an investment sub-committee	Trustees*
Objective and strategy setting and design of arrangement	Selecting the provider/adviser and agreeing investment governance process	Trustees**
	Scheme design: investment principles etc.	Trustees**
	Selecting the fund range, including the default option	Trustees**
Monitoring, review and change	Compliance with, and ongoing monitoring of, legal and regulatory requirements	Trustees plus investment advisers, lawyers and auditors
	Monitoring and reviewing investment performance of the funds	Trustees**
	Reviewing (and changing) provider/adviser and fund range	Trustees**
Communications to members	Communication to members on investment choices, performance, retirement options etc.	Trustees**
	Review communications to members	Trustees**

**with input from professional advisers and providers as appropriate*

***with input from employer, advisers and providers as appropriate*

Financial and non-financial factors

The Law Commission has produced guidance on how trustees should consider financial and non-financial factors, in summary;

- Whilst gaining a financial return should be the trustee board's focus they can take other non-financial factors into account if they think scheme members share their views and there is no risk of significant detriment to the fund.
- The trustee board should consider any factors which are financially material to the performance of an investment.
- Where there are financially significant environmental, social and governance (ESG) factors these should be considered. Similarly, if certain ethical issues are financially significant.

Objectives and strategies

The trustee board should consider how the requirements of their members might vary in the period before they begin to access their benefits (accumulation phase) and when they are accessing their benefits (the decumulation phase). Understanding the needs of the members and how these might change in the future is key.

There will be times when the trustee board need to review the statement of investment principles, default strategy and performance of the default arrangement. As well as the statutory minimum periods of review, it should also happen when there are significant changes to the membership demographic.

Changing investment funds and security of assets

There are many things to consider when deciding to transfer to a different investment, primarily the cost involved and how to mitigate and manage it. Advice should be taken as to how to mitigate these costs and how to inform members when considering a fund transfer.

It is not a straightforward task establishing the level of protection that different scheme assets would have in the event of malfeasance, fraud or other adverse events. The trustee board may not always be able to definitively establish the extent to which the scheme's assets are covered. Therefore, it is likely that the trustee board will need to take advice to establish the levels of cover and the level of risk that the scheme potentially remains exposed to.

For further information please contact your 44 Consultant.

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