

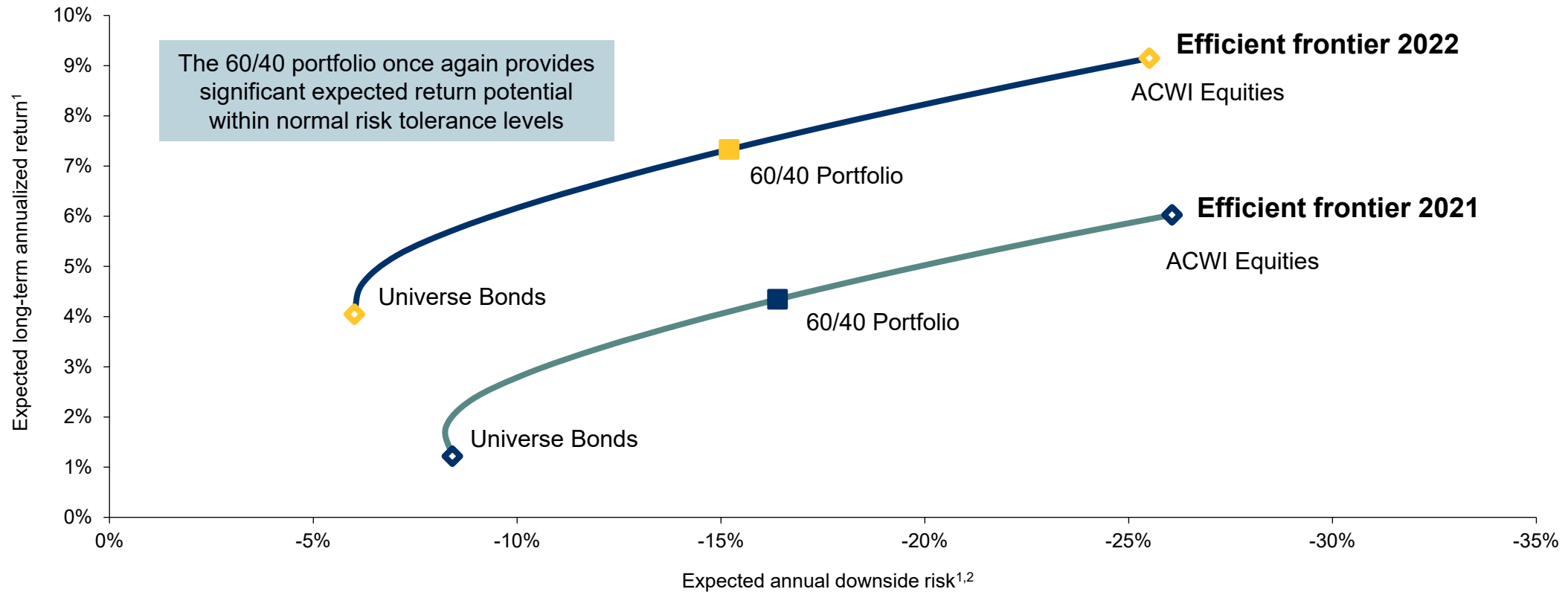
RBC Global Asset Management
PH&N Institutional

Overcoming the complexity of institutional portfolio governance

2023 | PH&N Investment
Perspectives
For Institutional Investors



A time for strategic discussions



¹ Refer to appendix for modeling assumptions and disclosures.

² CVaR95 which represents the expected loss during the worst 5% of return outcomes.

Hypothetical performance analyses are for illustrative purposes only and there is no guarantee that hypothetical returns or projections will be realized.

World of the fund fiduciary

Style diversification Manager contracting **ETFs**
Core vs. Core Plus Infrastructure **CAPSA guidelines**
Rebalancing **Mandate structures** Duration
Best practices
Hedge funds *Alpha-beta separation* Liability driven investing
Tax rules Cash management Factor based investing Currency hedging
Derivatives Private equity **Asset mix policy** *Target benefit plans*
Emerging markets Solvency moratoriums **Global bonds** **Private credit**
Two hats doctrine Extension strategies **Tactical asset mix**
Small cap **Regional vs. Global** **Prudent person principle**
High yield **ESG** **Leveraged overlays** **Active vs. passive**
Manager monitoring **Secondaries**

Observations on investment fund governance

- 1 An elaborate governance structure can be a blessing and a curse**
- 2 Committees are a collection of cognitive biases**
- 3 It is very hard for mere mortals to wear multiple hats**
- 4 All risks are not created equal**
- 5 The squeaky wheel gets the committee's time**
- 6 Markets don't wait for quarter-end**
- 7 Risk tolerance is 1% inspiration and 99% access to a deep pocket**
- 8 Pray for peace, prepare for war**
- 9 No PR is good PR**

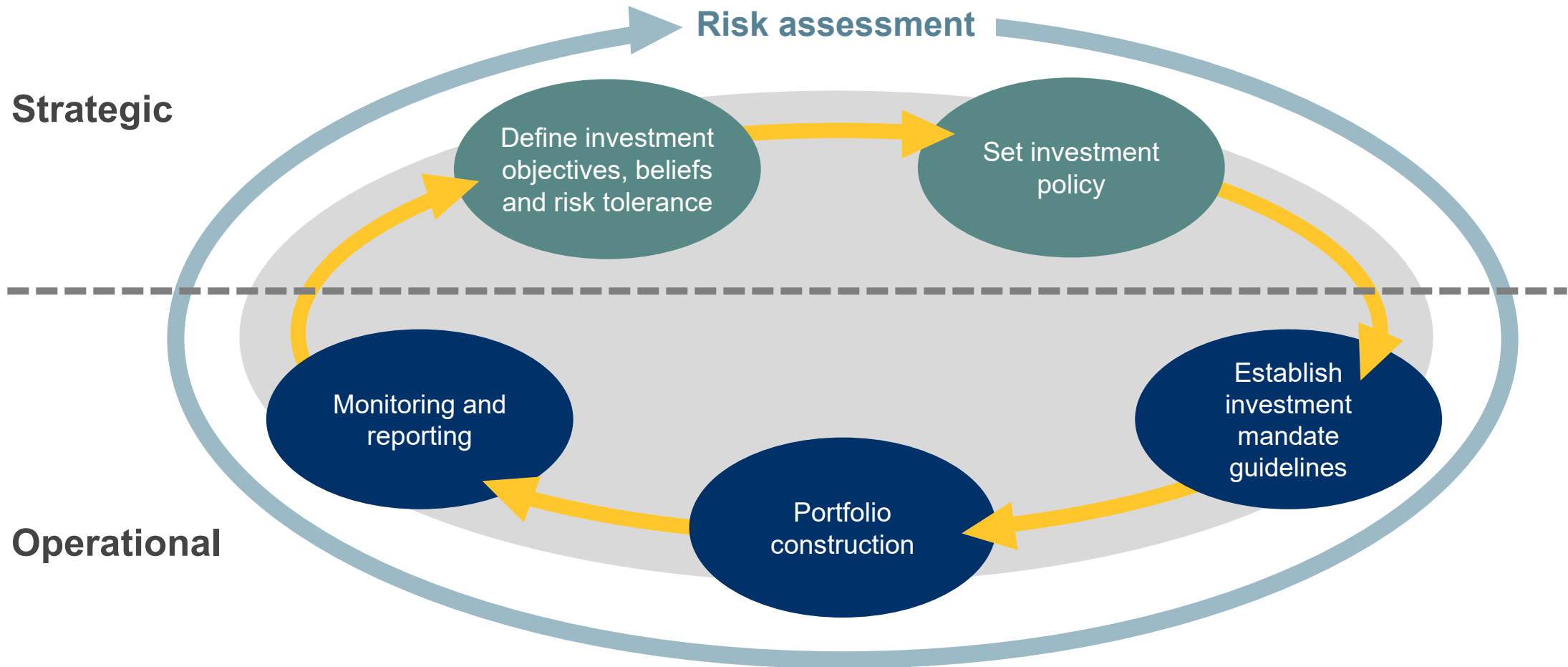
Overcoming complexity...

We are here to help . . .



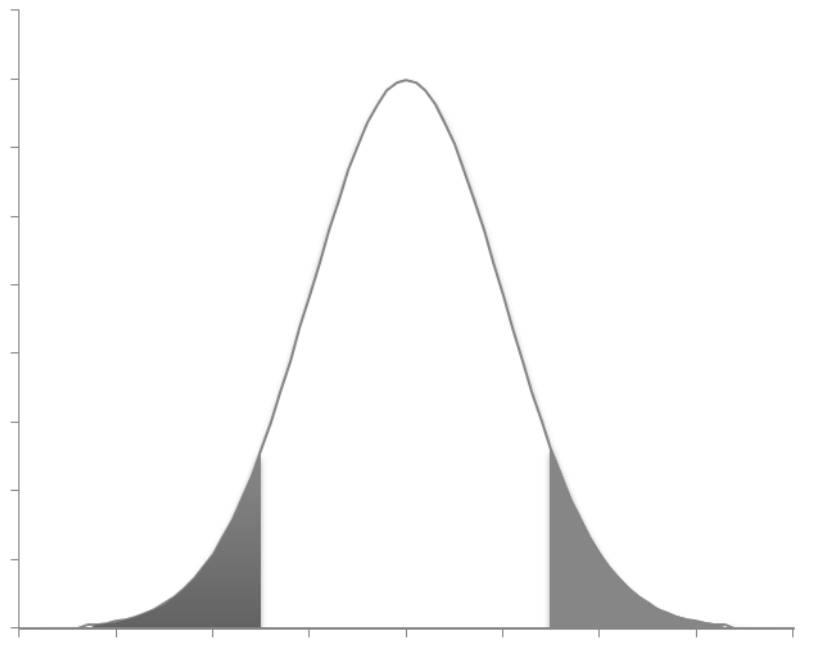
Source: Pexels

Investment governance cycle



What is risk?

Price risk:



Price volatility

“Impairment” risk:



Reduced likelihood of meeting objectives

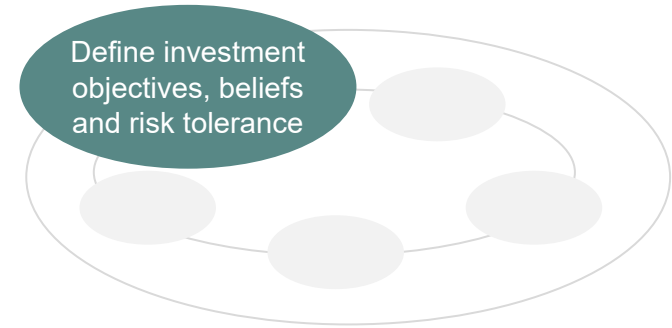
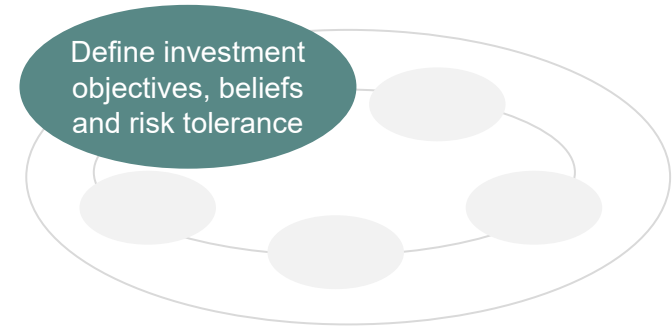
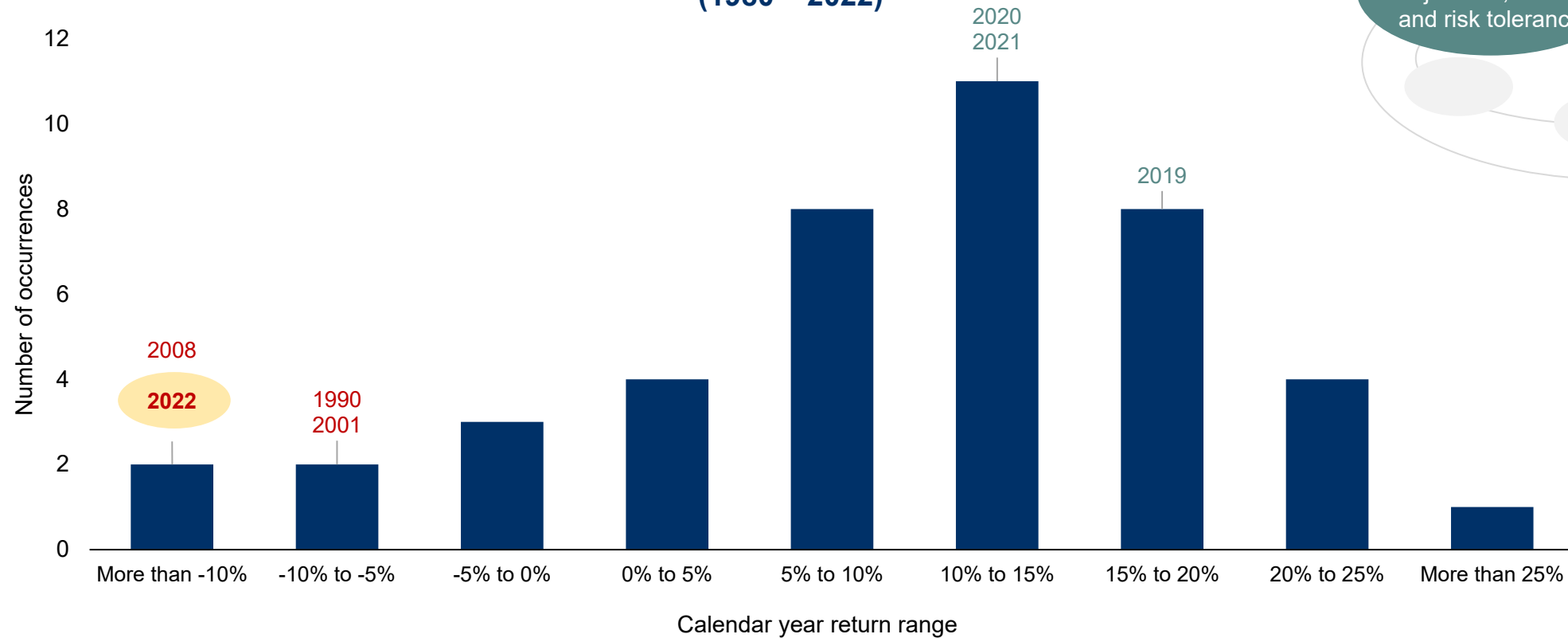


Image source: Pexels

How much risk?

Occurrences of annual returns for the 60/40¹ portfolio (1980 – 2022)



¹ Consists of 20% S&P/TSX Composite Index, 40% MSCI World Net Index CAD, 40% FTSE Canada Universe Bond Index. As of Dec 31, 2022. Source: RBC GAM

Setting investment policy

Advice for asset mix studies



Start with a strong foundation: document your specific circumstances



Be clear on the purpose of the study



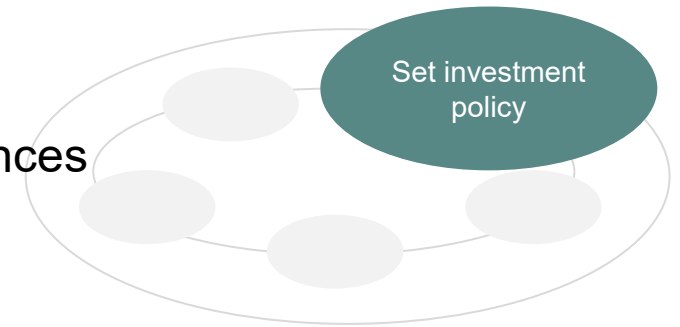
Use the right tool for the job



Select the right advisor: number-crunching vs. advice

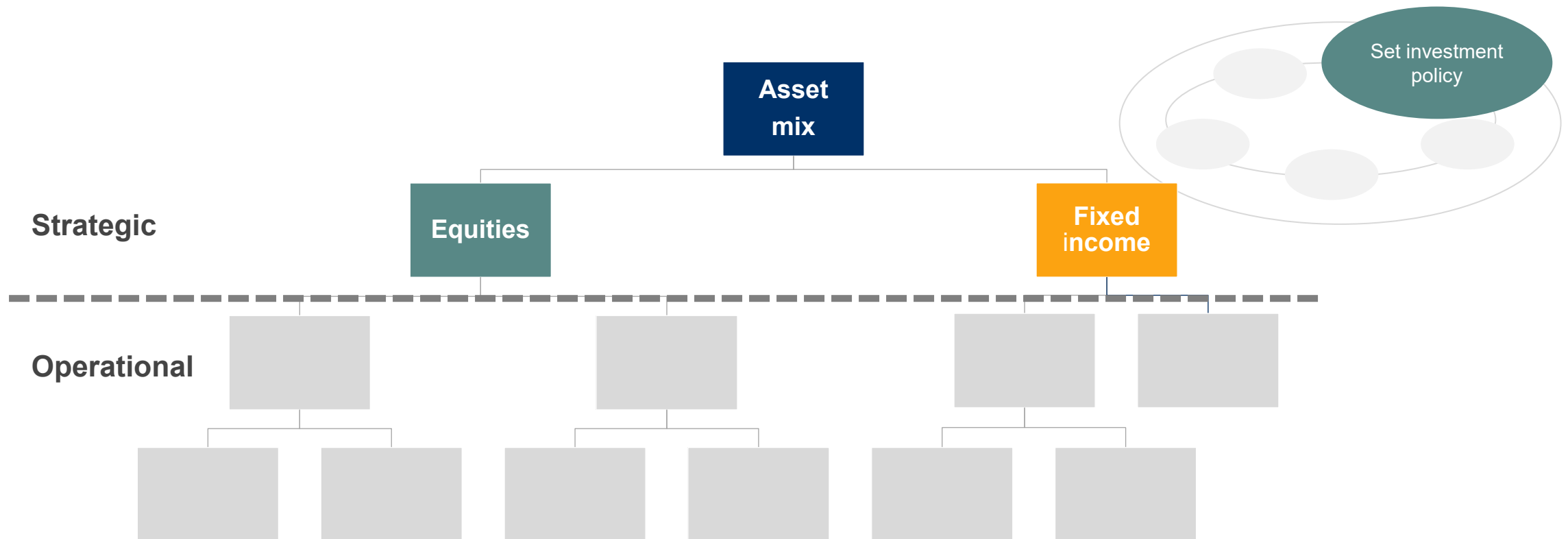


Beware of garbage in, garbage out

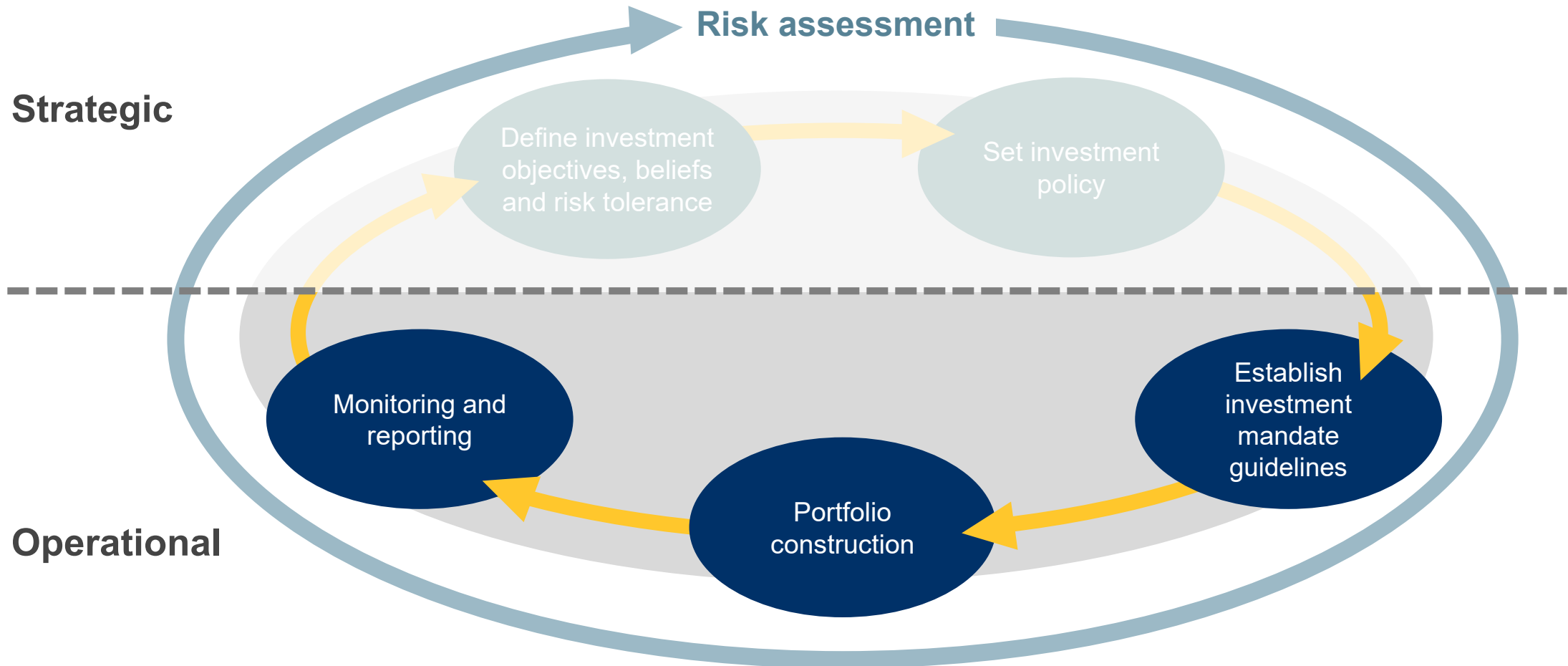


Reference portfolios

A tool for effective governance

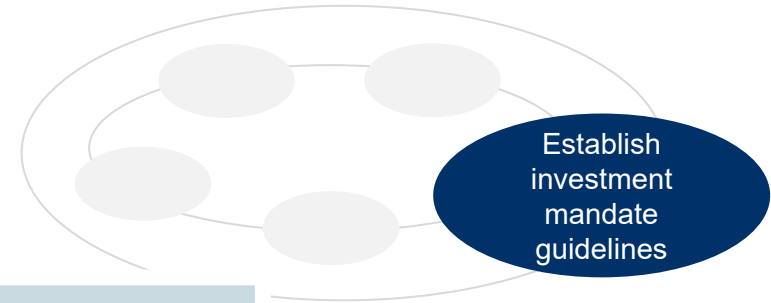


Investment governance cycle



Investment mandate guidelines

Practices worth sharing




Policies consistent with investment beliefs



Not all risks are created equal



Overcome status quo bias

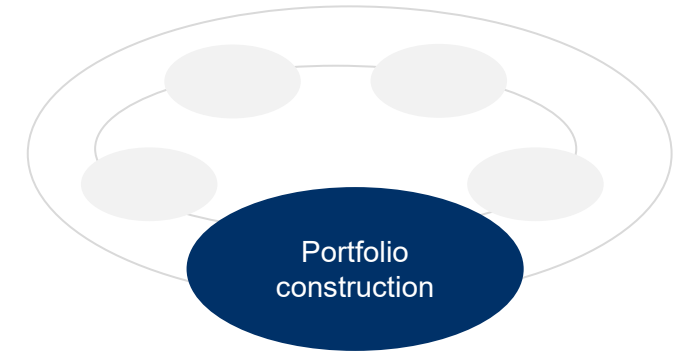
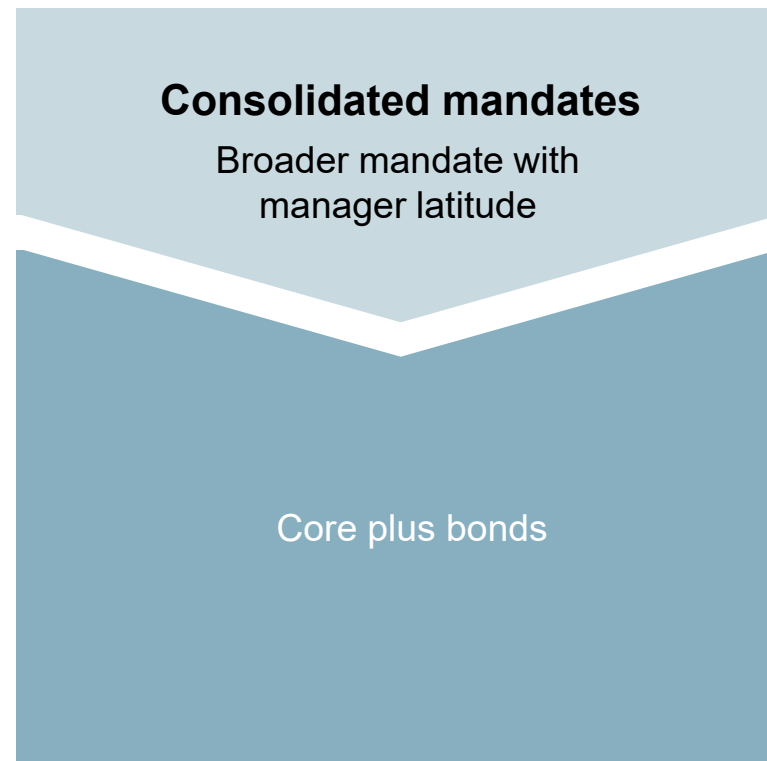
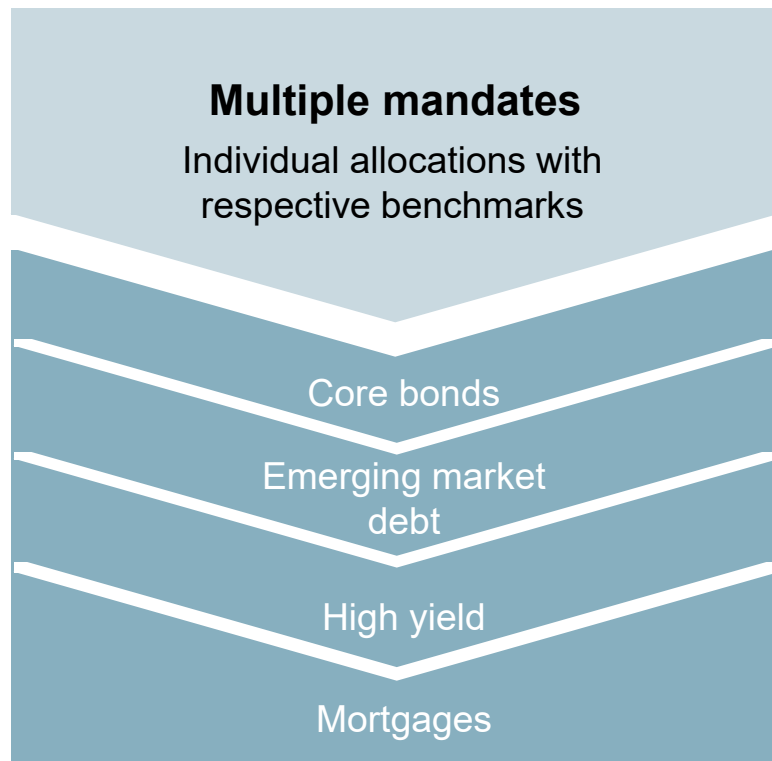


Make use of autopilot

Governance structure

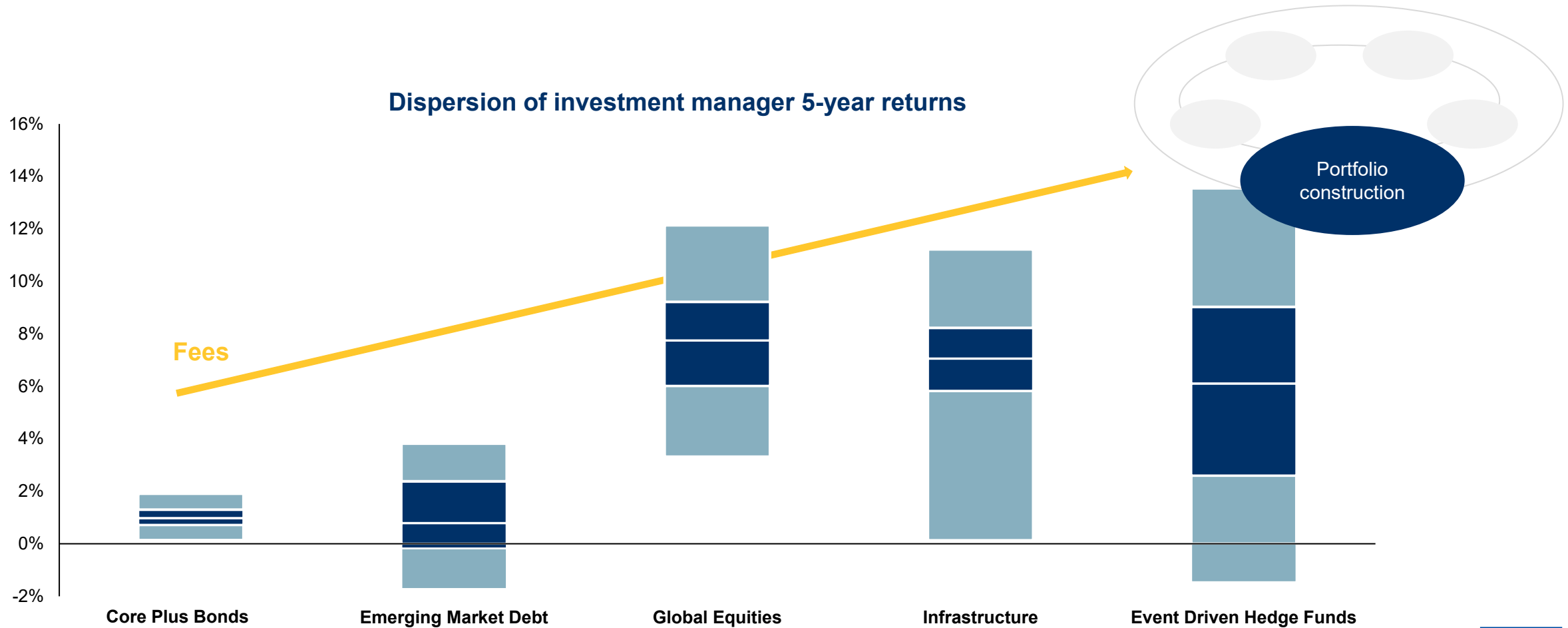
Simplifying asset mix and manager structure

Two paths to implementation



A challenge for committees

Dispersion of returns



Data as of December 31, 2022. Source: RBC GAM, Mercer, eVestment. Concept: David Swensen, Yale University
For illustrative purposes only. There is no assurance that any of the trends depicted or described herein will continue.

Making the most of manager meetings

It's your time, take control of it!



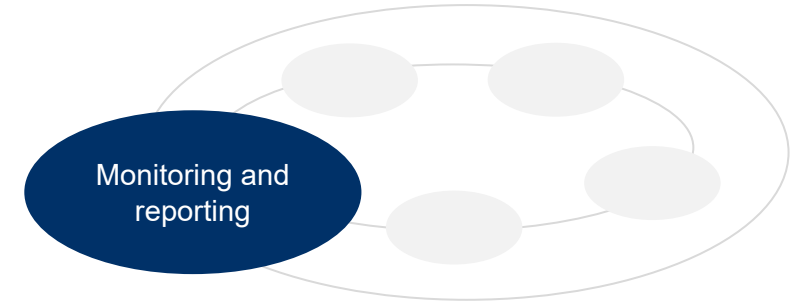
Frequency

- Are quarterly update meetings necessary?
- Meet managers when performance is outside a band
- Delegate meetings to a sub-committee



Content

- Use a standard agenda and performance template for manager presentations
- Focus on the information you need to make your decisions
- Ensure manager reporting serves your needs



Making the most of manager meetings

Suggestions for time management



Sharpen meeting focus

- Routine items can be “taken as read”?
- Separate investment and non-investment issues. Use an investment sub-committee?



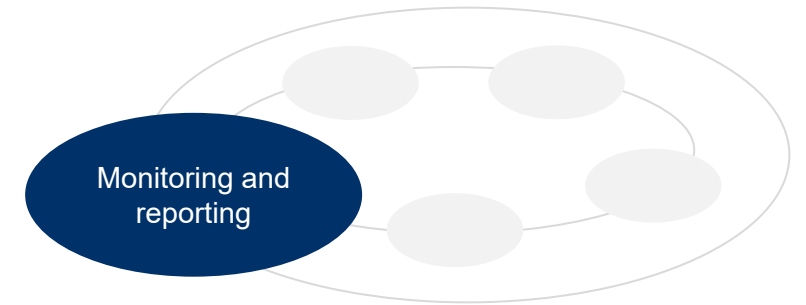
Use “auto-pilot” as much as possible

- Example: automate asset mix rebalancing



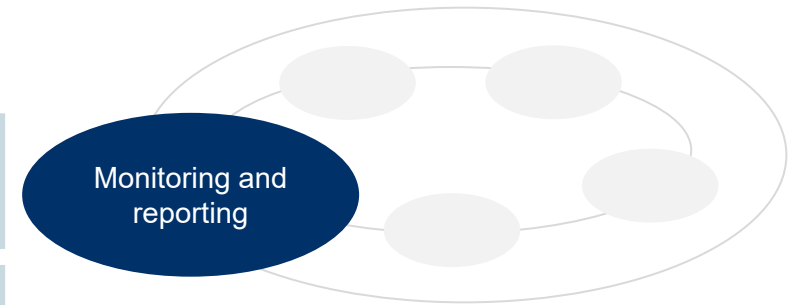
Review minutes of previous meetings

- Was time spent productive?



Ramping up expertise

- Devote time for committee education...
- ...and get your investment managers to do it!
- Tap your existing resources - what else can your existing providers do for you?
- Use volunteers. There are lots of retired consultants, money managers & former investment committee members out there!
- Have annual “Report Cards” for suppliers



ESG is 'Table Stakes' for asset owners

But adds even more complexity to governance and oversight



Determine your investment beliefs as it relates to ESG



Understand the needs of your stakeholders – DB pension, DC pension, University, Endowment, Foundation, Insurer, Family Office – all have different needs



Formalize ESG goals and incorporate them in the Statement of Investment Policy & Procedures (SIPP)



The SIPP can define how ESG considerations can support plan objectives and constraints

Responsible investing

How can investment managers help?



Education



Reporting



Investment solutions



Stewardship

In summary...



Source: Pexels

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