January 2008

Vermont Pension Investment Committee: Effectiveness and Governance Assessment

A Consultancy Project for:

The Office of the State Treasurer, Vermont

Prepared and Submitted by:

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i) Summary of Recommendations

The following recommendations include short, medium, and long-term reforms. In our opinion, all are important and worthy of consideration. However, the reader is asked to consider the feasibility of each point in relation to the long-run objectives of Vermont's pension funds. In addition, it should be noted that the recommendations below are tailored to the VPIC.[1] As a multi-billion dollar financial institution with a highly complex governance structure, the below recommendations were specifically chosen to achieve 'good governance' within the VPIC:

1. *We recommend that a mission statement and a set of consistent investment goals be established and communicated to all members such that it guides the decision-making of the VPIC.*

2. *We recommend that VPIC appoint an independent and directly accountable CIO. (This would require new legislation to create the position and would require an appropriation.)*

3. *We recommend that VPIC mandates for external service providers include well-defined parameters for performance and a well-defined time horizon.*

4. *We recommend that VPIC consider appointing an independent and expert Chair (this individual will, for example, set meeting agendas, liaise between participating funds and the VPIC, and oversee the performance of the service providers). (This would require new legislation.)*

5. *We recommend that such a Chair be subject to a long-term contract and be hired on at minimum 20% of full time (i.e. one day per week). (This would require new legislation.)*

6. *We recommend VPIC spend time developing an explicit statement of investment beliefs to be used as a point of reference for asset allocation, manager selection and investment decisions.*

7. *We recommend VPIC members become more aware of risk budgeting as a crucial principle for portfolio investment strategy and management.*

8. *We recommend that risk budgeting be explicitly incorporated in both the VPIC mission statement and its operational planning.*

9. *We recommend that VPIC consider further reducing the number of its external managers, taking into account its investment mission statement, the risk budgeting framework, and managers' contractual terms and conditions.*

10. *We recommend that VPIC directly employ staff dedicated to providing financial management functions and legal services. In particular, this should at least include a CIO and a legal advisor familiar with the nuances of financial contracting (see C&M rec. #2 above). (This would require new legislation.)*

[1] Indeed, this is the first consultancy report of its kind and was written specifically for the VPIC.

11. *We recommend that financial expertise be explicitly considered in the nomination, assessment, and appointment process of VPIC members. (This would require new legislation.)*

12. *We recommend that re-appointment to the VPIC board include a process of performance evaluation in consultation with the appointing authority and the VPIC Chair. (This would require new legislation.)*

13. *We recommend that VPIC consider a system of compensation for non-state employees that encourages greater levels of financial competency and participation at meetings. (This would require new legislation.)*

14. *We recommend that employee members be provided by their employers with release time from their normal duties commensurate with their VPIC responsibilities (including time required for education and learning). (This may require new legislation.)*

15. *We recommend that VPIC make an explicit distinction between operational (e.g. manager selection) and strategic (e.g. asset allocation) issues when discussing fund strategy and performance.*

16. *We recommend that VPIC meeting agendas and subcommittee deliberations prioritize strategic issues over operational imperatives. (This would only require new legislation if the deliberations resulted in noncompliance with contracting requirements.)*

17. *We recommend that operational imperatives be the responsibility of a new VPIC appointed CIO, in consultation with VPIC and the investment subcommittee. (This would require new legislation.)*

18. *We recommend that VPIC be reduced in size to a more manageable number, going from 17 to something between seven and nine voting members (including the recommended independent Chair. The newly appointed CIO would be a non-voting member). (This would require new legislation.)*

19. *We recommend that the size of the investment subcommittee be reduced to between four and six individuals (and that it and other sub-committees be recognized in statute). With respect to recommendation 18, if VPIC is reduced in size a subcommittee would still be necessary for dynamic decision making (especially if the reformed VPIC has 8 or more members). (This would require new legislation.)*

20. *We recommend that VPIC have a point person deputized to make day to day decisions in the case of a time-sensitive investment decision; this may be a newly appointed Chair with financial expertise or a newly appointed CIO. (This would require new legislation)*

21. *We recommend that VPIC implement a comprehensive learning policy associated with financial competency, including required education for all members with yearly follow ups on new concepts and products. (This would require legislation to mandate and provide negative consequences for failure to comply.)*

ii) About the Authors

Gordon L. Clark is the Halford Mackinder Professor of Geography, holds a Professorial Fellowship at St Peter's College and is currently a Senior Research Associate of the Labor and Worklife Program at Harvard Law School. His current research is on pension fund governance focusing upon the competence and consistency of decision-makers and the design of rules and regulations to enhance the investment performance of these crucial institutions (supported by the National Association of Pension Funds and Watson Wyatt). Related work centres on individual financial decision-making in defined contribution plans emphasizing the intersection between cognition and context (supported, in part, by the ESRC, Mercers, and Watson Wyatt). Recent books include The Geography of Finance (Oxford University Press, 2007) (with Dariusz Wójcik), Pension Fund Capitalism (OUP 2000), European Pensions & Global Finance (OUP 2003), and the co-edited Pension Security in the 21st Century (OUP 2003) and the Oxford Handbook of Pensions and Retirement Income (OUP 2006).

Ashby H. B. Monk is a PhD candidate in economic geography at the Oxford University Centre for the Environment and Christ Church College, University of Oxford. His doctoral research focuses on the impact of competitive strategy, globalisation and government on the design and implementation of benefit systems. He has published academic papers related to public and private sector pension funds, their design, their governance and their relationship to sponsoring organisations. He holds a graduate degree in international economics from the Sorbonne (Paris I), and an undergraduate degree in economics from Princeton University. He worked as an investment banking and private equity analyst in New York. Subsequently, he worked as a strategy consultant and then as an 'international economy editor' in the UK. In addition to his current academic position, he is a consultant to the Ontario Expert Commission on Pensions, an Editor at the Oxford International Review, and a referee for the Journal of Economic Geography.

iii) Consultancy Mandate

This report was commissioned by the Vermont State Treasurer, subject to the approval of the Vermont State Attorney General's Office, in accordance with 2005 Act 50, which asks the Treasurer to provide the Vermont General Assembly with a report by a qualified independent party on the effectiveness of having the Vermont Pension Investment Committee (VPIC) manage the funds of the State Teachers' Retirement System of Vermont, the Vermont State Employees' Retirement System, and the Vermont Municipal Employees' Retirement System. Specifically, the contractual mandate requires the authors provide:

- An evaluation of the effectiveness of VPIC.
- A detailed governance gap analysis of the twelve pension fund governance best practices outlined in Clark and Urwin (2007) for the VPIC.[2]
- A series of recommendations for revising statutes, rules or policies to bring the VPIC and the three state pension funds into pension fund governance best practice compliance.

[2] For further details, please refer to the paper: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1019212

1) Introduction

a) Methods

Assets for Vermont's three main pension funds are roughly $3.5 billion, carrying enormous importance in terms of individual and community welfare. As such, this report seeks to assess VPIC's effectiveness through a governance gap-analysis. This is done through reference to twelve pension fund best practices established in Clark and Urwin (2007) who conducted a global research project on pension governance that studied public, private, small and large defined benefit and defined contribution pension plans. In this consultancy report, VPIC will be benchmarked against these best practices.[3] Gaps identified between the VPIC and industry best practice are reported. Subsequently, recommendations are made in order to redress any deficiencies.

All findings and recommendations in this report are based on a triangulation of the following data sources: First, we draw on existing literature, reports, statutes, legislation, meeting agendas, meeting minutes, and other documents provided by the Treasurer's Office. Second, we rely on data derived through interviews with VPIC stakeholders. VPIC stakeholders were given the opportunity to speak with the authors about the governance of VPIC. These interviews were directed by a predetermined set of questions that touched on those issues of relevance to this report.[4]

Finally, the authors were asked to include a competency evaluation of VPIC members. Unfortunately, due to insufficient responses to the online competency questionnaire, a formal presentation of this data was not possible.

b) Plan for Report

This report proceeds as follows. Section two elucidates the analytic context, grounding the best practice principles in established academic and industry research. Section three begins the analytic portion of the report, engaging in an evaluation of VPIC's performance in six core best practice attributes for efficacy. Subsequently, section four evaluates VPIC's performance on an additional six best practice attributes for excellence. In each of the two previous sections, we list expectations, findings, and recommendations for improvement.

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[3] Clark and Urwin (2007) is available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1019212
[4] Please see the appendix for a list of interviews completed and the questions that were circulated before meetings.

2) Analytic Context

a) Pension Fund Governance Background

A successful financial institution is one that can evaluate and respond to financial innovation and, if necessary, implement changes in order to maintain organizational coherence with its stated objectives. Many pension plans acknowledge the importance of 'good governance' in this task. Moreover, good governance has financial payoffs. Academic research suggests that the difference between superior and poor governance practices can translate into as much as 100 to 300 basis points per year differences in investment returns (Ambachtsheer, 2007 and Watson Wyatt, 2006). Moreover, Clark and Urwin (2007) find that best-practice funds have a performance roughly 200 basis points per annum higher than average funds. To put this in context, this research suggests that good governance could contribute an additional $35 to $105 million dollars in returns each year to the VPIC.[5] This underscores the importance of this issue for all pension funds, including those classified as small or medium sized.

b) Pension Fund Governance Best Practices

In this report, we view pension fund governance as a finite resource. Each pension fund has at its disposal a limited amount of time and money with which to pursue investment objectives. As highlighted above, there are clear payoffs from using these resources in an efficient and effective manner. This report focuses on the three key governance characteristics:

1) Institutional coherence: Pension funds must ensure that inherited organizational characteristics are managed in such a way that the long-term interest of beneficiaries and other stakeholders is maintained. Clark and Urwin refer to this as the "clarity and focus of investment objectives."

2) People: Human capital is clearly an important component of any organization, but institutions vary significantly in terms of internal competencies. Clark and Urwin focus on the people "involved in investment decision-making including reference to their skills and expertise."

3) Process: The process by which investment decisions are made is of the utmost importance, representing an important value generator for any financial institution. According to Clark and Urwin, process refers to "how investment decision-making is organized and implemented."

As Clark and Urwin (2007) show, "the best governed institutions are those that follow best-practice across all three dimensions." Moreover, within these three characteristics are twelve best practices broken into two groups of six.

The first six characteristics represent fundamental attributes for efficacy. These are regarded as being within the reach of most pension funds.

- Mission clarity
- Effective resourcing
- Strong leadership

[5] This assumes assets under management of $3.5 billion.

- Investment beliefs
- Risk budgeting
- Manager discipline

The next six characteristics represent additional attributes for fund excellence. These attributes differentiate the best in class funds from the rest. Indeed, these characteristics take 'good' funds and make them 'great'.

- Investment function
- Required competencies
- Compensation
- Competitive positioning
- Dynamic decision-making
- Learning organization

c) Governance Gap Analysis

For the governance gap analysis provided below, we include three pieces of information:

1) We provide the Clark and Urwin Best Practice requirement (C&U BP). This describes the requirements placed on the pension fund to be best practice compliant.

2) We provide our findings (C&M) in the case of VPIC.

3) We then provide our recommendation.

3) Stage One Best Practice: Fundamental Attributes for Fund Efficacy

These fund attributes are regarded as being within the reach of most pension funds.

i) Mission Clarity:

C&U BP: Funds should match 'golden rules' such as maximizing beneficiary welfare with an accepted operational goal subject to certain constraints or risk parameters.

C&M Findings: Interviewees identified a variety of 'goals' though many were not aware of an overarching 'mission statement'. We found no common agreement on operational objectives. When asked why VPIC exists, many referred to the original rationale that underpinned the establishment of VPIC: that is, reducing costs and time rather than any goals underpinning its investment operations.

Also, while there are explicit fund-specific target risk adjusted rates of return, most interviewees were not aware or did not indicate their awareness of the significance of these targets during interviews.

The above underscores a lack of mission clarity within the VPIC. As such, many felt that this has made managing the interests of each pension board difficult within the VPIC.

C&M Rec. # 1: *We recommend that a mission statement and a set of consistent investment goals be established and communicated to all members such that it guides the decision-making of the VPIC.*

ii) Effective Resourcing:

C&U BP: Each element in the investment process should be allocated appropriate resources (financial and time) consistent with its potential impact on investment performance and required capabilities.

C&M Findings: Many interviewees noted a significant reliance on New England Pension Consultants (NEPC). While nearly all interviewees were satisfied with the service provided by the consultants, it was noted that VPIC was demonstrably short on internal resources.

While resources are available to VPIC beyond NEPC, these resources are shared with the Treasurer's Office. VPIC apparently has no staff that is directly accountable to it. In addition, the VPIC is required by statute to use the Attorney General as legal counsel. However, many respondents felt that this constrained investment decisions due to difficulties and complexities associated with financial innovation and contracting.

It was noted that there is no written description of the contracting process and respective responsibilities of the Offices of the Treasurer, Attorney General and the consultant therein.

Interviewees viewed a potential appointment of a CIO as a positive step forward. However, to gain acceptance, selection would need to be based on a competitive appointment decided by the VPIC board.

C&M Rec. #2: *We recommend that VPIC appoint an independent and directly accountable CIO.*[6]

C&M Rec. #3: *We recommend that VPIC mandates for external service providers include well-defined parameters for performance and a well-defined time horizon.*

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iii) Strong Leadership:

C&U BP: Funds with highly qualified and respected board chairpersons, in particular those that encourage a culture of accountability and responsibility among board members, demonstrate better investment performance.

C&M Findings: The VPIC Chair rotates every two years and is nominated from within the board. The Chair is tasked with setting agendas and ensures that meetings are effective. Some respondents felt the role of Chair within VPIC lacks the necessary (and statutory) clout to fulfill the role of a 'strong leader'. This is partially due to the Chair's lack of independence. It was accepted that an appointed and expert Chair would improve board functioning; selection of such an individual would necessarily be done on the basis of a competitive search decided by the VPIC board.

C&M Rec. #4: *We recommend that VPIC consider appointing an independent and expert Chair (this individual will, for example, set meeting agendas, liaise between the participating funds and the VPIC, and oversee the performance of the service providers).*

C&M Rec. #5: *We recommend that such a Chair be subject to a long-term contract and be hired on at minimum 20% of full time (i.e. one day per week).*

[6] We recognize that certain duties would be transferred from the staff of the Treasurer's office to that of the CIO, which, in our opinion, is completely appropriate.

iv) Investment Beliefs:

C&U BP: Only with a clear and accepted belief structure, which refers to the underlying assumptions and commitments of board members about how the world (e.g. financial markets) works, can an institution sustain a competitive advantage in financial markets.

C&M Findings: Few interviewees could articulate their investment beliefs or could identify shared VPIC beliefs. In particular, there appears to be little recognition of the significance of strategic asset allocation vis-à-vis operational imperatives.

C&M Rec. #6: *We recommend VPIC spend time developing an explicit statement of investment beliefs to be used as a point of reference for asset allocation, manager selection and investment decisions.*

v) Risk Budget Framework: [7]

C&U BP: Funds should review the investment decision making process through reference to a 'risk budget' that aligns investment goals with the institutional risk profile. Strategic asset allocation is a crucial component of risk budgeting.

C&M Findings: Most interlocutors were not aware of the notion of a risk budget. Some respondents did have some awareness due to a recent NEPC education forum in which risk budgeting was discussed. Some VPIC stakeholders indicated that the risk adjusted rate of return was a part of decision-making.

C&M Rec. #7: *We recommend VPIC members become more aware of risk budgeting as a crucial principle for portfolio investment strategy and management.*

C&M Rec. #8: *We recommend that risk budgeting be explicitly incorporated in both the VPIC mission statement and its operational planning.*

vi) Manager Discipline:

C&U BP: Managers should be subject to strict performance criteria and have clear mandates over set periods of time such that their goals are aligned with those of the institution over the long-term.

C&M Findings: Managers are benchmarked and are subject to peer review. This information is provided to VPIC by NEPC. According to some

[7] For more details on risk budgeting, please refer to Figelman, 2004; Sharpe, 2002; and Urwin, et al, 2001.

interviewees, few managers have been terminated in the recent past due to underperformance. We noted widespread lack of knowledge on this issue.

Some interviewees were concerned about the manager selection process, noting that it can be at times "non-competitive" (i.e. where there is only one manager to choose from) or non-transparent. Moreover, some noted that manager selection was sometimes made based on incomplete information (e.g. before seeing the contract details).

Some interviewees felt that the number of managers remained too high, notwithstanding the intention to use VPIC to minimize the number of investment managers (and the related costs).

C&M Rec. #9: *We recommend that VPIC consider further reducing the number of its external managers, taking into account its investment mission statement, the risk budgeting framework, and managers' contractual terms and conditions.*[8]

[8] We recognize that VPIC has already dramatically reduced its managers as part of the unitization process. Nevertheless, we recommend close scrutiny of the list of current managers in the hope of further reductions.

4) Stage Two Best Practice: Additional Attributes for Fund Excellence

The next six characteristics represent additional attributes for fund excellence. These differentiate the best in class funds from the rest. Indeed, these characteristics take 'good' funds and make them 'great'.

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i) Effective Investment Function:

C&U BP: Funds should have thorough and highly competent investment professionals tasked with clearly specified responsibilities and be subject to clear lines of accountability.

C&M Findings: As noted above, VPIC does not have dedicated staff tasked with investment analysis and operations. It relies on NEPC and employees from State government.

Many also noted that legal advice should come from counsel with explicit financial experience and expertise. Indeed, a majority of interviewees felt the ongoing need to work with the Attorney General's office on issues associated with financial innovation and contracting was a constraint to implementing complex investments.

C&M Rec. #10: *We recommend that VPIC directly employ staff dedicated to providing financial management functions and legal services, thereby making VPIC staff directly accountable to the board and not another State agency. In particular, this could at least include a CIO and a legal advisor familiar with the nuances of financial contracting (see C&M Rec. #2 above).*[9]

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ii) Required Competencies:

C&U BP: Selection to a pension fund board or investment committee should take into account candidates' numeracy, skills of logical reasoning, and their understanding of risk and probability. As financial markets become more complex, meeting fiduciary responsibility requires that trustees meet certain minimum levels of competency relevant to financial decision-making.

C&M Findings: Many noted that the VPIC board has a diverse set of competencies. It was also noted that the appointment and re-appointment process (at the appointing authority) does not take into consideration financial expertise. Also, since many board members have had long tenures, it was noted that not enough turnover on the VPIC board has occurred to bring in the necessary skills.

[9] VPIC's assets under management (over $3 billion) and complex demands and relationships associated with three underlying pension boards warrant this specific recommendation.

C&M Rec. #11: *We recommend that financial expertise be explicitly considered in the nomination, assessment, and appointment process.*

C&M Rec. #12: *We recommend that re-appointment to the VPIC board include a process of performance evaluation in consultation with the appointing authority and the VPIC Chair.*

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iii) Compensation:

C&U BP: Funds should have a system of reward explicitly linked to the investment mission and performance of the institution, creating a shared responsibility for investment performance vis-à-vis stated objectives.

C&M Findings: Current board members are not normally paid for participating on the VPIC. They are reimbursed for mileage, and (in some cases) the time taken is compensated to the employer. In fact, many viewed payment as unpalatable since it would effectively be "double dipping" (i.e. getting paid for VPIC work while also being paid for normal work).

C&M Rec. #13: *We recommend that the VPIC consider a system of compensation for non-state employees that encourages greater levels of financial competency and participation at meetings.*

C&M Rec. #14: *We recommend that employee members be provided by their employers with release time from their normal duties commensurate with their VPIC responsibilities (including time required for education and learning).*

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iv) Competitive Positioning:

C&U BP: Funds should take an inventory of their investment decision making process, acknowledging existing limitations and act accordingly to remedy such limitations with ex-officio appointments. This would facilitate a greater focus on investment innovation, which will drive superior returns over the long-term.

C&M Findings: Some noted that VPIC is not a nimble financial institution, and yet they are investing in financial products that require dynamic responses. In the opinion of these individuals, this necessitates greater internal resources. When discussing competitive positioning, nearly all respondents viewed operational imperatives as being discussed more frequently than strategic investment issues.

C&M Rec. #15: *We recommend that VPIC make an explicit distinction between operational (e.g. manager selection) and strategic (e.g. asset allocation) issues when discussing fund strategy and performance.*

C&M Rec. #16: *We recommend that VPIC meeting agendas and subcommittee deliberations prioritize strategic issues over operational imperatives.*

C&M Rec. #17: *We recommend that operational imperatives be the responsibility of a new VPIC appointed CIO, in consultation with the VPIC and the investment subcommittee.*

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v) Dynamic Decision-Making:

C&U BP: Funds should be capable of responsive decision-making. This should be on a real-time basis rather than a calendar-time basis.

C&M Findings: Nearly all interviewees felt that the current 17 person board was unwieldy and simply too large for efficient and effective investment decision-making. Due to a general sense of mistrust, interviewees viewed the current size and shape of the VPIC and sub-committees as meeting political commitments but not financial requirements.

The investment sub-committee meets approximately an additional eight days per year. But sub-committee meetings, which are the dynamic decision makers within VPIC, are also viewed by many as too large. It was noted that some of these meetings have 10 people.

There is no individual tasked with day to day decision making. There is no systematic plan for responding to an emergency. All dynamic responses are seen to be the remit of the consultant NEPC.

C&M Rec. #18: *We recommend that VPIC be reduced in size to a more manageable number, going from 17 to something between seven and nine voting members (including the recommended independent Chair. The newly appointed CIO would be a non-voting member).*

C&M Rec. #19: *We recommend that the size of the investment subcommittee be reduced to between four and six individuals (and that it and other sub-committees be recognized in statute). With respect to recommendation 18, if the VPIC is reduced in size a subcommittee would still be necessary for dynamic decision making (especially if the reformed VPIC has 8 or more members.*

C&M Rec. #20: *We recommend that VPIC have a point person deputized to make day to day decisions in the case of a time-sensitive investment decision; this may be a newly appointed Chair with financial expertise or a newly appointed CIO.*

vi) Learning Organization:

C&U BP: Funds should deliberately encourage innovation, challenge common assumptions, and evolve in a way that reflects its past experiences.

C&M Findings: There are occasional opportunities for learning, but attendance is not required. However, nearly all noted the need for more education of members. Moreover, it was noted in several meetings that there was no institutionalized learning process.

C&M Rec. #21: *We recommend that VPIC implement a comprehensive learning policy associated with financial competency, including required education for all members with yearly follow ups on new concepts and products.*

5) References

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6) Appendix

List of Interviews:

USA time	Wednesday, Nov 7	USA time	Thursday, Nov 8	USA time	Friday, November 9
10:00 AM	Jeb Spaulding - Treasurer	9:00 AM	Steve Jeffrey (VMERS Chair)	9:00 AM	Steve Rauh - (VMERS Gov's appointee)
11:15 AM	Vaughn Altemus (VPIC Vice Chair & VSTRS designee for Ex-officio @ Education)	11:00 AM	NEPC - Investment Consultant	10:15 AM	Annie Noonan - VSEA Executive Director
12:30 PM	Tom Candon (VSTRS designee for Ex-Officio @ BISHCA)	12:15 PM	David Minot - Treasurer's Office Staff (Director of Finance & Investments)	11:30 AM	Jim Reardon - (VSERS Ex-Officio/Commissioner of Finance & Management)
				12:45 PM	Dick Johannesen- (VSERS Gov's appointee)
USA time	Monday, November 19	USA time	Tuesday, November 20		
10:00 AM	Jay Kaplan - (VSTRS Board)	9:00 AM	Bill Griffin & Jaye Johnson - (AG's Office) legal councel		
10:45 AM	Donna Holden - Treasurer's Office Staff	9:30 AM	Jeff Fannon- VT-NEA union		
11:30 AM	Liz Desmond - (Investment Mgr.) @ Mondrian Investments	10:00 AM	Jon Harris - VSTRS Chair		
		11:00 AM	Warren Whitney - VPIC and VSERS Chair		

Questions and Talking Points:

1) Mission Clarity:

A. What is the ‘explicit’ goal or goals of the VPIC?
B. To what extent do you think these goals are important in VPIC deliberations?
C. Are these or other goals discussed in VPIC deliberations? Please specify.

2) Effective Resourcing:

A. What resources are available to the VPIC in formulating investment objectives and seeing them implemented?
B. Are those resources adequate, given your responsibilities?
C. Are you aware of short-comings?

3) Strong Leadership:

A. What are the responsibilities of the VPIC board Chairperson?
B. How would you describe the process of decision-making, and do you think the time set aside for VPIC deliberation is adequate?

C. Some boards use attendance incentives, 360 degree annual assessments, even re-appointment assessments. Does VPIC use these sorts of protocols? If not, should these protocols be introduced to the VPIC?
D. What are the apparent strengths and weaknesses of the VPIC board?

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4) Investment Beliefs:

A. Do you think that the VPIC has a long-term mandate, or is it best if it responds to the short-term volatility of financial markets?
B. Is volatility of markets a central concern, or is the rate of return more important?

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5) Risk Budget Framework:

A. Are you aware of the notion of a risk budget?
B. Has this been explained at the board level?
C. Is it utilized when setting operational objectives?

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6) Manager Discipline:

A. How many external managers are used by the VPIC?
B. What performance criteria are used to assess their short-term and long-term performance?
C. Are you aware of recent terminations of manager mandates for poor performance? If so, please provide details.

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7) Effective Investment Function:

A. Please comment on the professional standing of VPIC professional staff.
B. Please explain their qualifications and experience in relation to similarly placed professionals in the investment industry.
C. Are there any problems with recruitment?
D. How are VPIC professionals assessed in terms of performance?

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8) Required Competencies:

A. Please comment on the range of skills and qualifications available on the VPIC board.
B. Please explain how board members were first appointed and whether there is a regular review and formal re-appointment process.
C. Are there any apparent short-comings in terms of skills on the VPIC board?

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9) Compensation:

A. How are current board members remunerated?
B. Should there be a change in the way VPIC board members are compensated? If so, how?

10) Competitive Positioning:

A. Who sets the agendas for each VPIC meeting?
B. How long do meetings last?
C. What is the balance between strategic issues and operational issues discussed at each VPIC meeting?

11) Dynamic Decision-Making:

A. How often does the VPIC board meet?
B. Have there been any extraordinary VPIC meetings as of late (e.g. to respond to the recent subprime market turmoil)?
C. Is the board Chair deputized to consider investment issues day to day – outside of board meetings?
D. Has the CIO discretion to respond to any and all market movements impacting VPIC investment strategies?

12) Learning Organization:

A. Are there regular, in-depth training sessions for VPIC board members? If so, is there required attendance? Are there recent examples?
B. Are board members encouraged to sit in on investment manager 'beauty parades'?
C. How else is learning facilitated for VPIC board members?