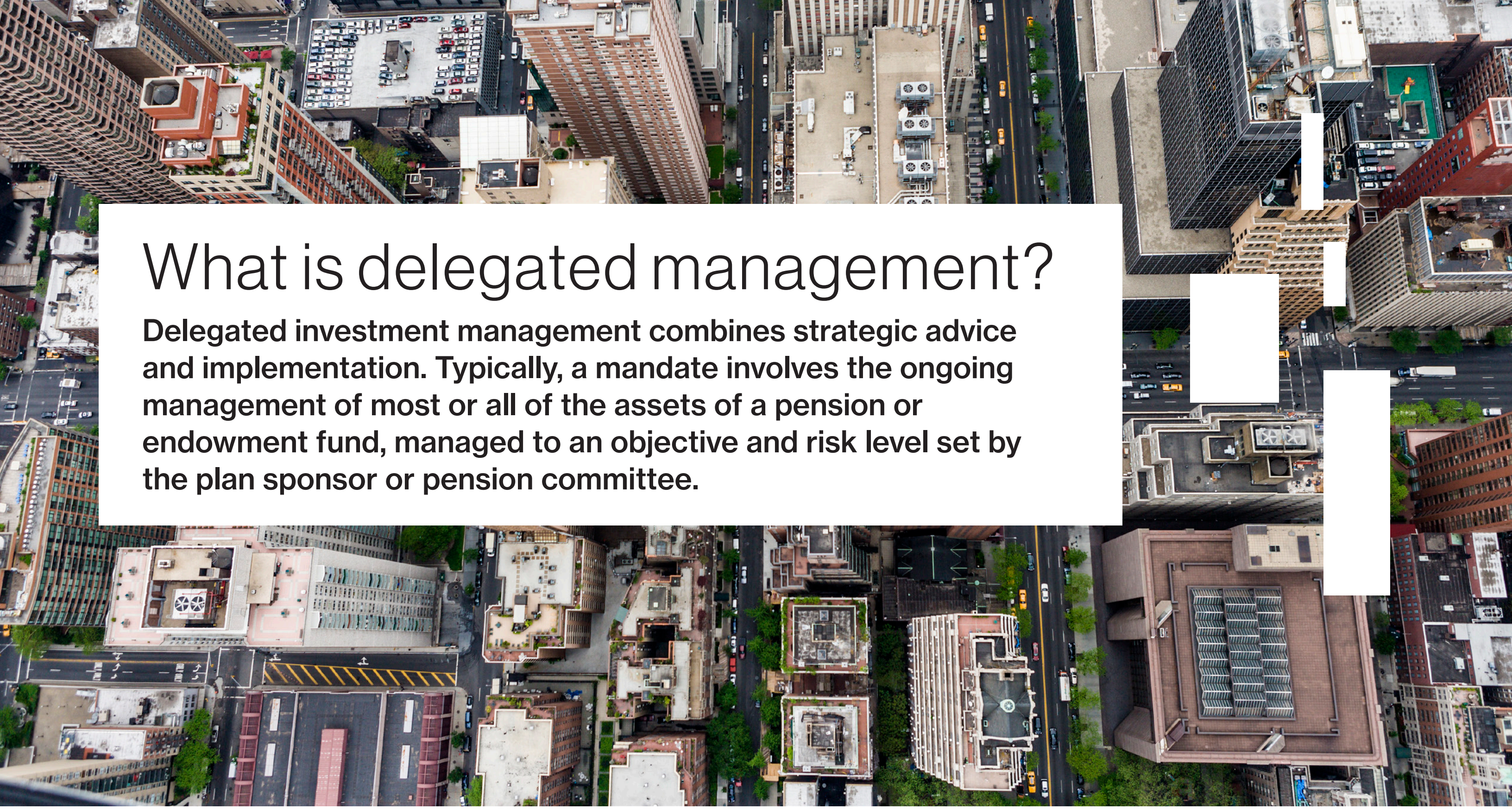
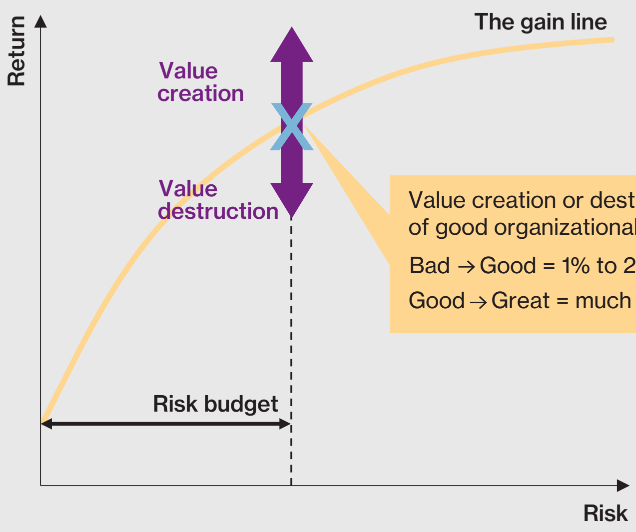


What is delegated management?

Delegated investment management combines strategic advice and implementation. Typically, a mandate involves the ongoing management of most or all of the assets of a pension or endowment fund, managed to an objective and risk level set by the plan sponsor or pension committee.

Figure 1. **Good investment governance and organizational design make a difference**



Source: *Ambachtsheer, K., 'How Much is Good Governance Worth?', The Ambachtsheer Letter 245, KPA Advisory Services Ltd., June 2006*

Research has demonstrated a connection between investment governance and investment success. Keith Ambachtsheer suggests that the good/bad governance gap could be worth 1% to 2% of additional return each year.* *(Figure 1)*

So it's logical that governance should guide the investment process. While some pension funds have adopted simple, passive equity and bond portfolios that require a lower level of specialist knowledge and time to maintain, others have attempted to build more sophisticated portfolios in pursuit of better risk-controlled returns.

Either approach may be appropriate, but to maximize the chances of success, we believe the governance approach must match the fund strategy.

*Ambachtsheer, K. "How Much is Good Governance Worth?" The Ambachtsheer Letter 245, KPA Advisory Services Ltd. June 2006

Closing the governance gap: To build or buy?

For those who seek to improve the risk/return trade-off from their equity and bond portfolios, there are generally two options to enhance investment governance: build or buy. Pension funds can either build an in-house team or delegate to a specialized third party.

Building an internal team can offer attractive benefits. However, for many, it is simply not a realistic solution, as only the largest pension funds have sufficient scale to make this a genuinely viable option.

For pension funds that can't build internally, delegated investment management can help close the gap between the need for efficient investment strategies, real-time decision making and the typically constrained governance budget of a pension fund committee.

Potential benefits of delegated management

While it may seem that plan sponsors that opt for delegated investment management are taking a step back, we believe this is not the case. In fact, one of the most frequently cited potential benefits of delegated investment management is that plan sponsors or committee members have more time to focus on key strategic issues and long-term goals for their endowment or pension plan. The plan sponsor retains accountability for the investment strategy (overall risk and return) and works with the delegated manager to determine key parameters, such as the time horizon, return and risk. The delegated manager, working with the plan sponsor, then executes the investment strategy separating the governance and execution functions.

Monitoring also becomes less of a burden on the plan sponsor as the delegated manager relationship replaces numerous relationships with investment managers and potentially other service providers.

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