

# BOARD GAMES

## Piecing together effective trustee communication.

BY CAROLINE CAKEBREAD

**O**ver the past decade, defined benefit (DB) pension investment has changed dramatically in nearly every way but one—plan governance still means trustees are responsible for making final decisions about what's best for the future of the plan. But being a pension trustee today sure is different than it was back when plans were mostly built on long-term bonds with little risk.

Today, DB pension funds are grappling with the reality of poor markets and ballooning liabilities, and they are seeking investment-related solutions to meet the needs of plan members and retirees for the long term. These often involve complex products and even entirely new investment strategies.

Which is why manager-trustee communication is one of the biggest challenges facing DB pension funds today. Indeed, trustees have a huge role to play in Canadian capital markets. For example, in its submission to the Task Force on Financial Literacy, shareholder research firm SHARE Canada pointed out that the market value of trustee pension funds in Canada stood at \$898.1 billion at the end of 2009. Communicating to and educating trustees, therefore, should be a priority—and not doing that well is a major risk.

If plan management cannot convince the board and engage it in meaningful discussions, then it's a barrier to making positive changes to the plan.

For example, one big road bump for DB plan sponsors is liability driven investing (LDI). It's helped a lot of pension plans de-risk in tough markets, but some haven't been able to get out of the gate with LDI because their trustees shut the discussion down when they hear the word *leverage*. Not only is LDI tricky to explain, it also involves terms such as *futures* and *options*, which have taken a beating in the financial press.

There's another unwanted dynamic that can arise during these discussions: plan managers can find themselves pitted against plan trustees in trying to decide what's best for the future of the pension fund in today's difficult investment conditions. Despite the common goal, agreeing on how to get there often differs.

By working to improve board and trustee communication, plan managers can avoid this dynamic altogether. Better communication can also dramatically improve meetings, keeping trustees focused on the important issues.

Making a case for change at a pension plan requires work and planning; it also takes understanding your audience

and what that audience wants to know. Following are six ways to enhance the communication at your board meetings.

### Engage Trustees in Change

If you're facing dead silence in the boardroom when presenting important ideas or issues to trustees, chances are you're not telling them what's important. If you want to generate more discussion, ask them what they need. Since communication is a two-way street, the best way to start improving how you work with trustees is to involve them in the process. Ask them what is and isn't working with the way information is communicated. Is it relevant? Does it support them in making decisions? What do they need that is not there? Trustees should be part of the change process at every step. They should also know that this kind of shift takes time. The feedback cycle may take years, and it will change at least as often as your board does.

### Know Your Audience

The makeup of the average board of trustees varies from plan to plan, but you can usually bet on a mix of both lay and expert members. For example, at a big public plan, boards and committees draw on union members and other professionals from the industry in which

they operate. There are also finance experts who help advise them. Private sector plans have a similar mix of backgrounds: sometimes a chief financial officer and representatives from across the company. This mix works extremely well to ensure that all members' interests are represented when decisions are made about the pension plan. But it also creates a challenge for plan management on the communication front, particularly when it comes to complex investments.

Say, for example, a plan manager wants trustees to consider a shift to LDI or alternative investments. Some trustees could have considerable experience with financial products; others could have little knowledge other than what they read in the business section of the newspaper every morning. Pitching complex material at different levels is tough but not impossible.

Start with the basics, including what you propose to do and how it will benefit the plan. Education materials should include very simple definitions of the key elements of a strategy (What is an option? What is leverage?) and build from there, showing the elements in action and how they fit into a strategy. Don't be afraid to go online and draw from some of the many media and educational sites and resources out there. They can help provide the solid definitions and context that are accessible to a lay reader (and even a more sophisticated audience).

### Answer Questions

Trustees will (and should!) have lots of questions about the risks and potential pitfalls of new investments, particularly if they have been the subject of negative headlines. Plain-language education is

essential for every potential new investment strategy being put in front of trustees. Beyond this, plan management should also be able to answer specific questions about any strategy or issue it is considering:

- What is it?
- How does it work?
- How will it benefit the plan and its members?
- Is it risky?
- Do the benefits outweigh the risks? If so, how?
- What is the worst-case scenario if you choose this route, and how likely is that to happen?

### Provide the Right Tools

Every quarter, plan management scrambles to put together committee reports on activities—the same scramble happens for the annual meeting, too. All too often, materials sent out are tactical and lack context about why the data or information is being presented or why it's important. For example, a chief investment officer might believe interest rate information is important to include, but without any context about how those rates impact the plan and its liabilities at a higher level, it's useless to many trustees. Make sure reports contain information that is relevant to trustees. Information should be given context that answers three questions: what does it mean, why is it in the report and why is it important to the plan?

### Prioritize Education

Hold education sessions about new issues or topics being introduced to trustees. If you're expecting trustees to make major

decisions in a complex area that they are unfamiliar with, you need to give them time to learn and absorb the information over several meetings—not just one. Schedule an education session and then bring the topic to a regular meeting at a later date for discussion. Any final decisions should be made at a further meeting where the topic, issues and questions can be reviewed and discussed again.

### Get Outside Help

One of the biggest problems plan managers face is a lack of sophisticated expertise on these topics. Some rely on consultants to explain complex subjects to trustees. If you don't have the expertise, then you should certainly draw on whatever experts you can to help. Investment advisors are also a source of education and information for trustees. Some are excellent at education. In those cases, plan managers should take advantage of their skills.

However, when using external resources, you must take on a gatekeeper role. You know your committee best, so it's your job to ensure that you pitch materials and presentations at the appropriate level and answer the questions your trustees have. You want to avoid anything with bias or anything that will simply lead to information overload. In the end, everyone's goal—trustee and plan manager alike—is to make a sound decision based on all the facts. Getting to that point can be challenging, but the outcome will be far more rewarding and will contribute to the long-term health of your plan. **BC**

---

Caroline Cakebread is editor of *Canadian Investment Review*. [caroline.cakebread@rogers.com](mailto:caroline.cakebread@rogers.com)