

2019 ACPM NATIONAL CONFERENCE



SHIFTING CURRENTS

Navigating Retirement Diversity

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VANCOUVER, BC
Fairmont Hotel Vancouver
SEPTEMBER 10–12, 2019

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Workshop 4

Investing is a Marathon not a Sprint

Speakers:

Rajiv Silgado, *UBC Investment Management Trust*
Brad Bondy, *Ellement Consulting*

Moderator:

Perry Teperson, *Leith Wheeler Investment Counsel*

Long Term Is Not Just A Series Of Short Terms

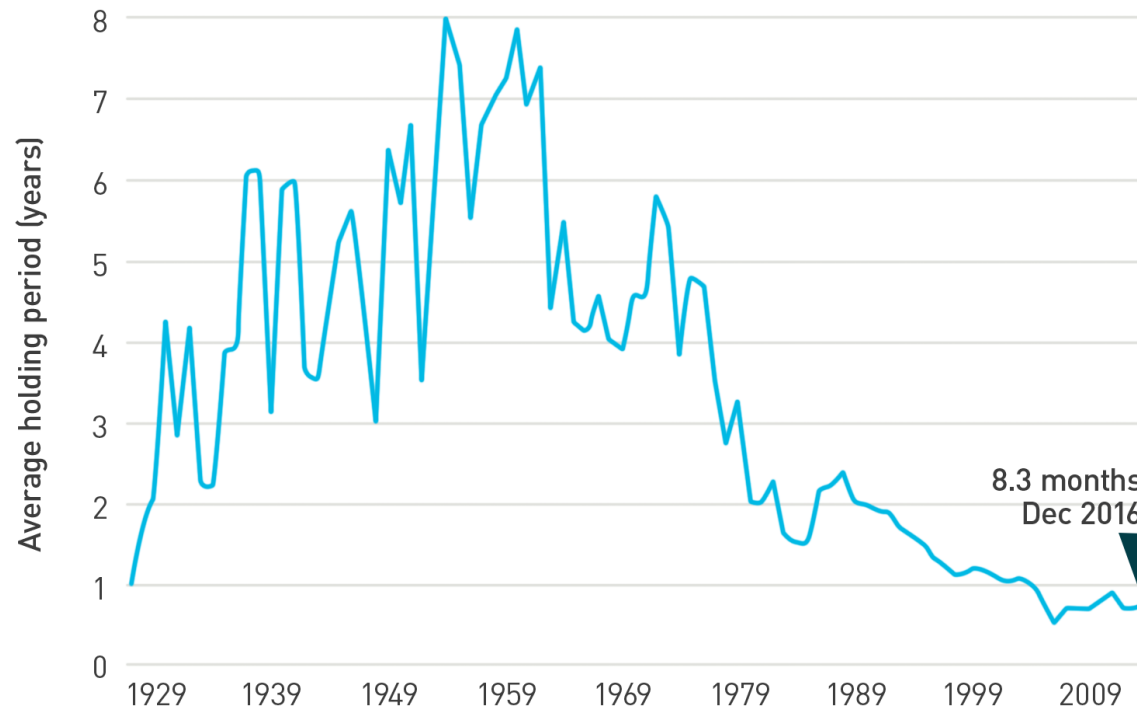


Both run for the fastest time.
Very different training, skills, &
anatomy

- What competition are you in?
- What are your strengths & weaknesses for that race?
- Who do you need to beat?
- What progress should you monitor...when?
- How should you react?

Holding Periods Have Cratered... Trading is Apparently Exciting to Some

NYSE average holding periods, 1929 - 2016

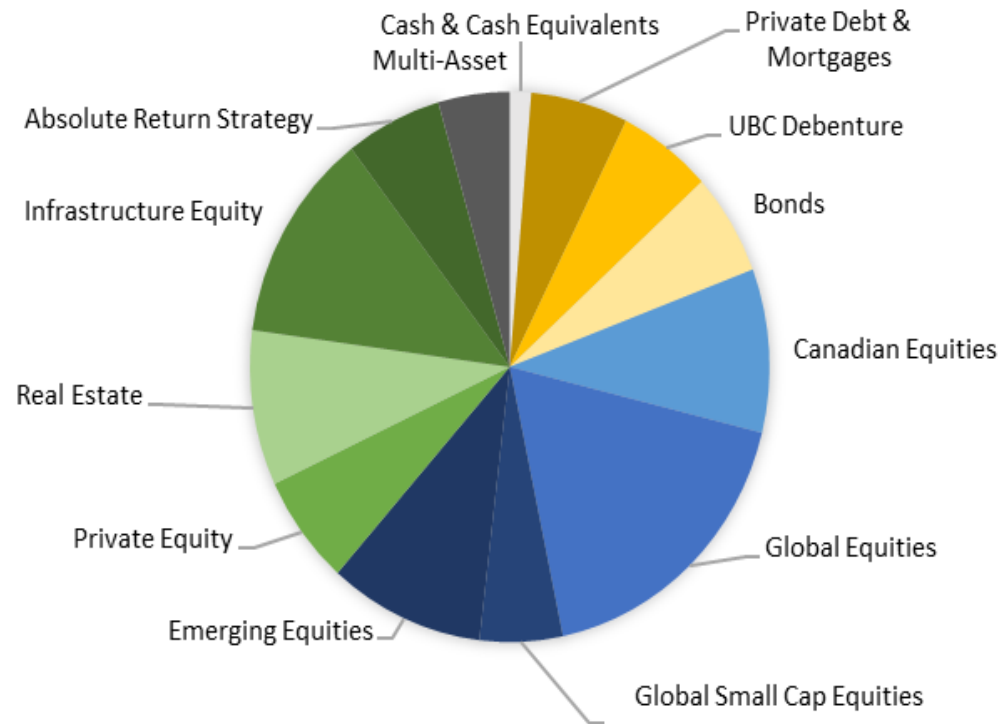


“The stock market is a device for transferring money from the impatient to the patient.” –Warren Buffett

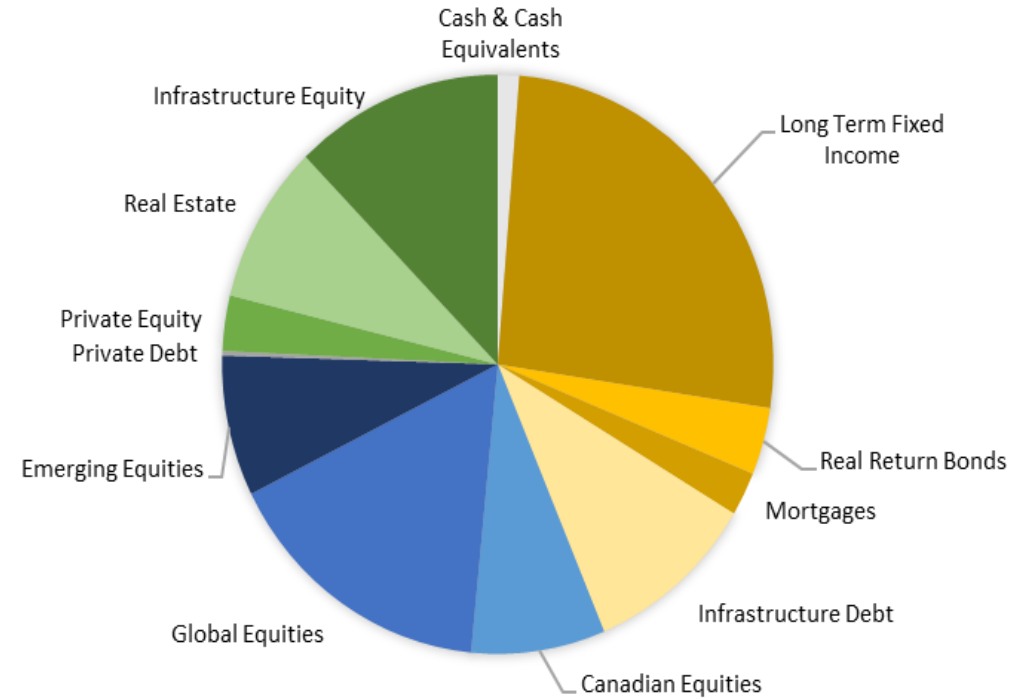
Source: Ned Davis Research. Dec 2016.

Asset Mix of two main portfolios at UBC IMANT

UBC Endowment



UBC Staff Pension Plan



Governance at UBC IMANT

- UBC's Board of Governors delegates certain responsibilities to IMANT's Board
- Board's responsibilities include:
 - Adopt and review investment policies;
 - Establish, approve and maintain strategic asset mix and risk tolerance;
 - Establish and approve all operating and administrative policies and procedures;
 - Oversight of IMANT's compliance with policies.
- Board Chair and CEO develops the agenda. All materials distributed well before a meeting. Key items :
 - CEO's report on operations
 - Investment Report – performance, commentaries on portfolios, etc.
 - Risk Dashboard - key risks and exposures versus limits
 - Reports from Board Committees' quarterly meetings
 - Board education e.g. strategy deep dives
- Board currently has eight members - majority are independent of UBC.

Recruiting and Educating Directors/Trustees

- Framework - assess desired competencies sought in potential candidates.
 - assess the capabilities of the existing Board;
 - develop a pipeline of individuals who have the necessary skills and experience
- Annual budget for Board education
 - attend pertinent conferences;
 - take relevant courses;
 - provide annual reports on their efforts to enhance their skill sets.
- Annual strategy session for the plan
 - update 3-5 year action plan;
 - strategic topics such as new asset classes, stakeholder needs such as divestment, ESG, etc.
- Term limits, to ensure balance between Board continuity and relevant skill sets

Investment / Pension Board Skills Matrix

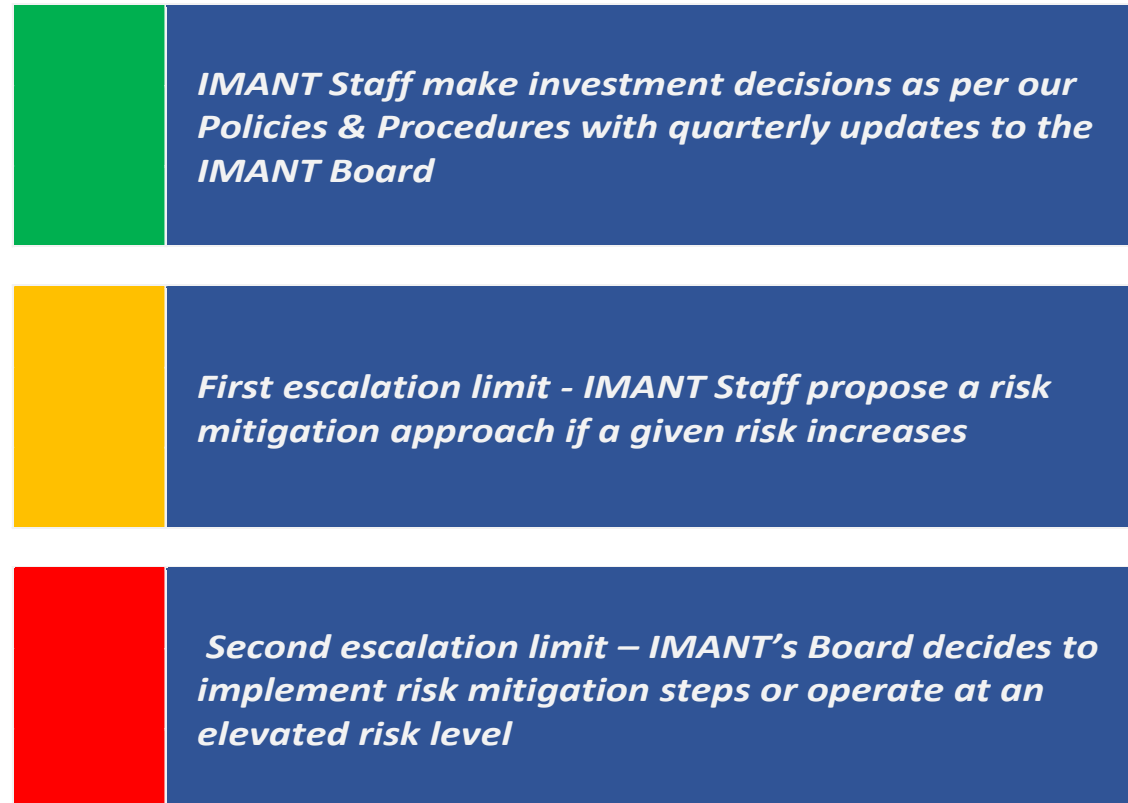
- Typically required skills or experience:
 - Governance
 - Investment expertise
 - Risk management
 - Financial acumen
 - Pension design and funding expertise
 - Senior business or legal experience
 - HR
 - Stakeholder involvement– plan members, donors, university community
- Use ratings - assess sufficiency of skills, e.g.
 - Significant experience – potential to take on leadership role on behalf of the Board
 - Moderate experience – sufficient experience in the current context
 - Limited experience
- Board chair, after discussion with each director, should review and update matrix annually

Risk Management Framework at UBC IMANT

- Clear mission statement for IMANT
- IMANT's investment beliefs well articulated
- Detailed Statements of Investment Policy and Procedures (SIPP) reviewed annually
- Defined asset class guidelines for every asset class reviewed and approved annually
- Clarity of decision rights between different stakeholders, e.g.
 - UBC Board of Governors
 - IMANT's Board of Directors
 - UBC Staff Pension Board
 - IMANT staff
- Key risk exposures measured and reported on a quarterly basis

Governance of Risk Management at UBC IMANT

IMANT uses a “traffic light” approach to escalating governance requirements in managing the endowment and pension assets.



As Fiduciaries What Are We Trying To Achieve?

- Deliver on long-term promises
- Navigate short term (*challenging*) requirements
- Handle short-term 'bumps' in the road
- Identify the big threats and make a plan



Investment process is largely a defense against behavioural mistakes

Hindsight Bias

IT WAS SO OBVIOUS
THAT THIS BALI BOMBING
WAS GOING TO HAPPEN... I
CAN'T BELIEVE THE GOVERNMENT
DIDN'T FORESEE IT ... JUST
CAN'T BELIEVE IT ...

WHERE DO YOU
THINK THE NEXT
ONE MIGHT BE ?



THE NEXT ONE WON'T
BE SO PREDICTABLE
THAT'S OBVIOUS... ANYONE
CAN SEE THAT ...



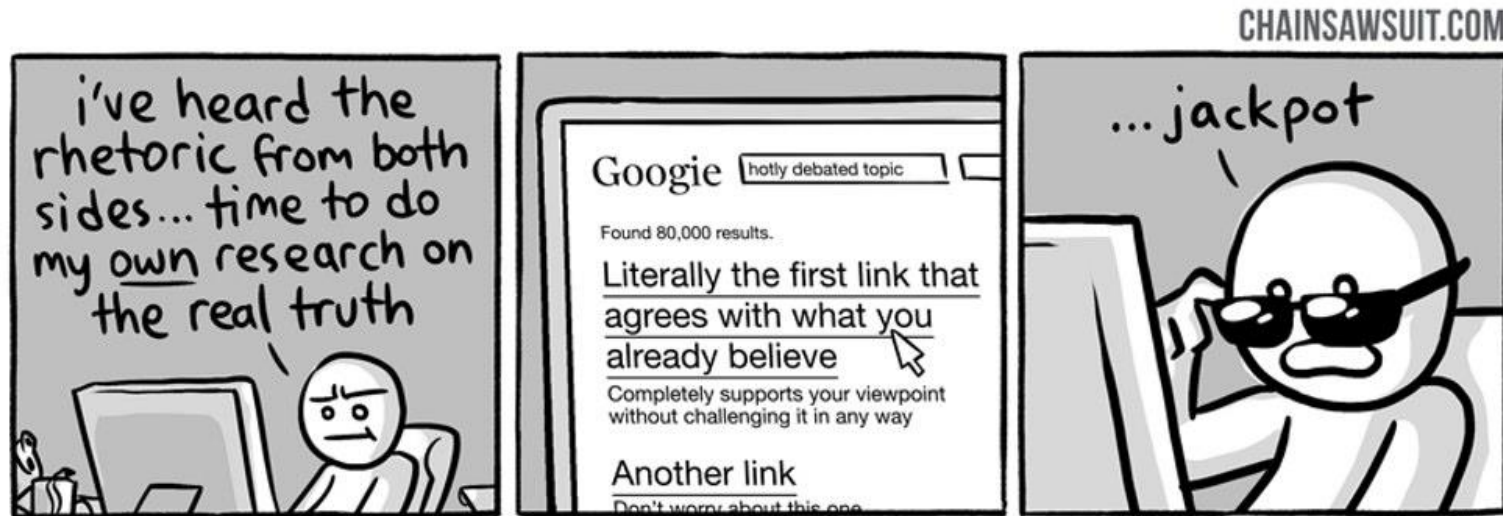
Overconfidence Bias



Common Outcomes:

- Underestimate risk – take too much
- Under-diversify
- Replace managers too often

Confirmation Bias



Antidotes?

- Read outside of your normal interest
- Seek the “Outside View” of your issue
- Know the opposing argument better than they do – Charlie Munger

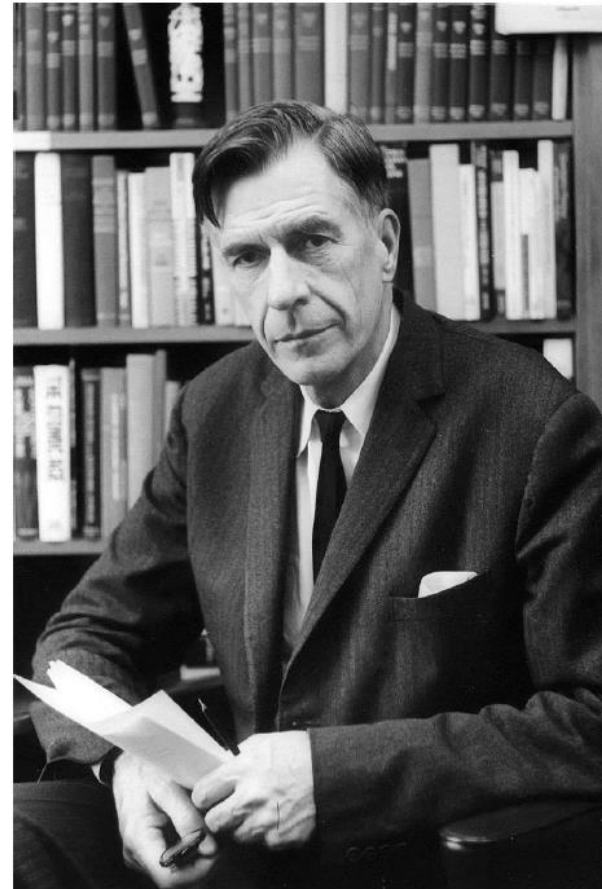
Forecasting Is Hard

“The only function of economic forecasting is to make astrology look respectable.”

John Kenneth Galbraith

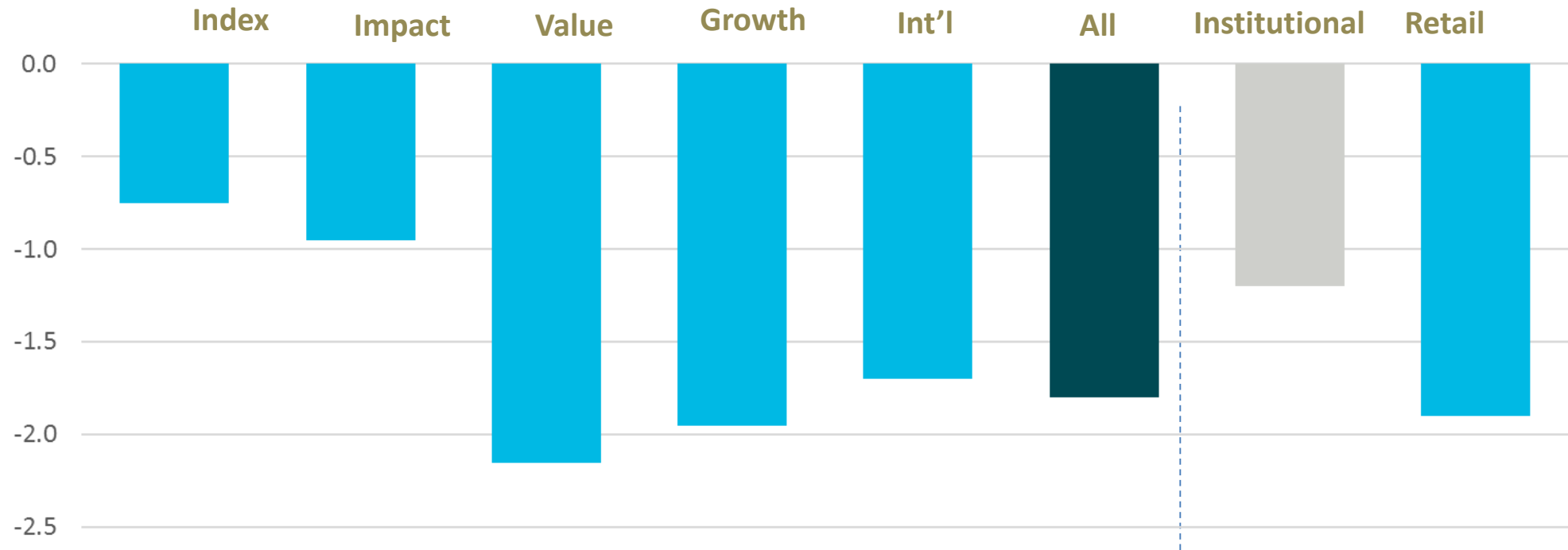
“There are two kinds of forecasters: those who don’t know, and those who don’t know they don’t know.”

John Kenneth Galbraith



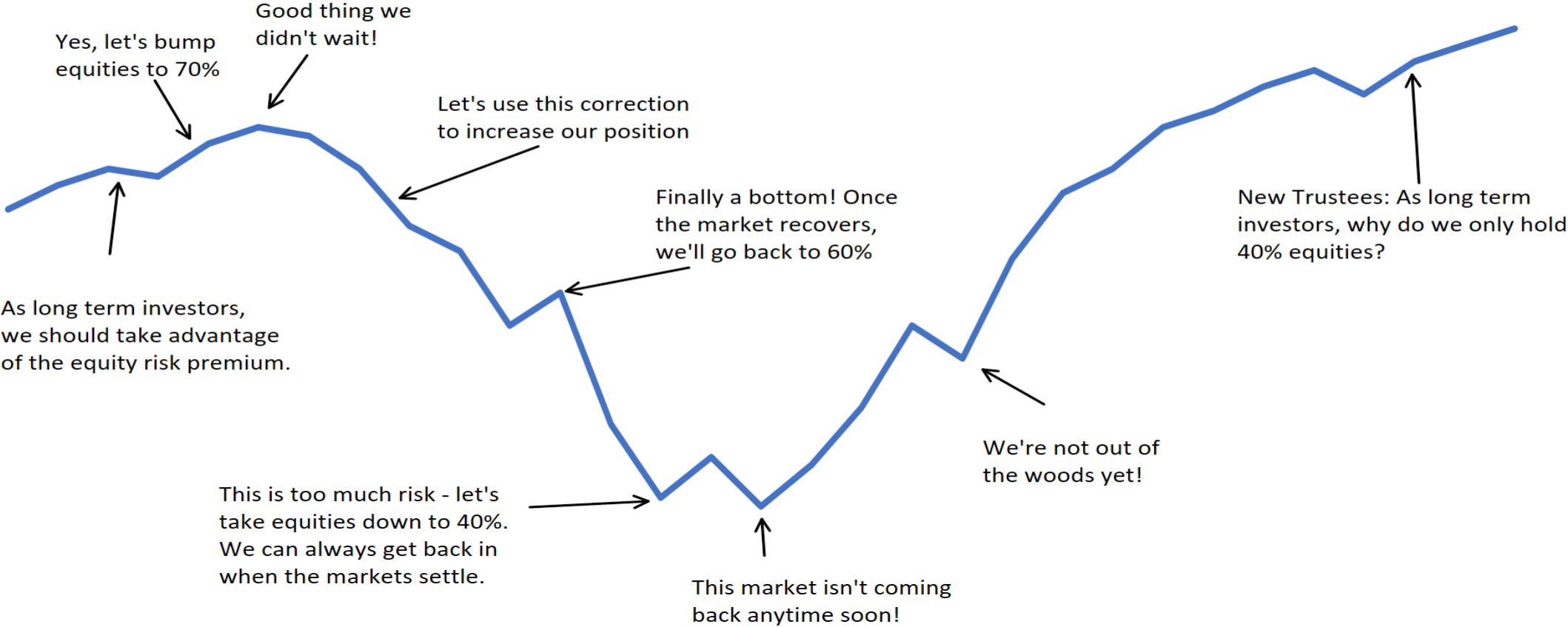
Losses Due to Short-Term Emotion Are Large

10-Year "Return Gap" for Investors in Mutual Fund Types
(percentage points per year)



Source: Derek Horstmeyer, George Mason University. WSJ 2018 caught in the return gap

Short-Termism in Action



Status Quo Bias

- Inertia
- Regret aversion
 - “Frozen at the switch”
 - Decision could turn out badly
 - Maybe now isn’t the right time
- May prevent required actions:
 - Terminating managers
 - Adding new asset classes
- ***“No action” is also a decision***



Time Needed To Reveal Skill In Uncertainty

You're a good golfer, your friend is almost as good.

You're challenged to a game, loser buys dinner.
How many holes do you play?

- a) 1 hole
- b) 9 holes
- c) 18 holes
- d) 4 days – The Masters

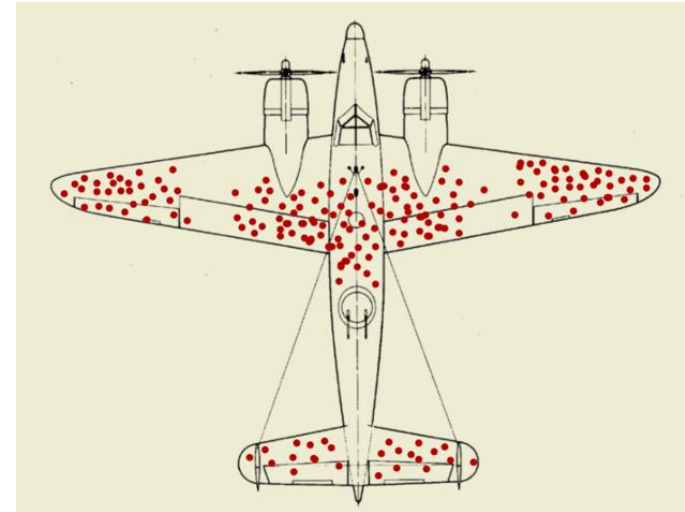
Importantly,
why?



Fewer Games Needed To Reveal Skill →→

Using Available Data...

WWII – Additional protection against bullets with heavy armour plate. Where should you apply the plates?



There's lots of short-term data (availability bias)
Be aware (beware!) of the data that you don't have

Key Takeaways

- **Behavioural biases can be a major obstacle to achieving long term goals**
 - **Be aware of your own biases**
 - **Seek out differing views, understand counter-arguments**
- **Think long term - avoid trying to forecast or time the market**
- **Focus on choosing the right level of risk – one you can live with in good and bad times**
- **Diversify**
- **Document your investment beliefs**

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