

MEKETA

INVESTMENT GROUP



Board Room – Best and Worst Practices

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Introduction



Introduction

- **It is not easy being a Board Trustee.**
- You are expected to attend quarterly or monthly meetings (possibly far away from home).
- You are expected to understand investments, actuarial science, pension laws, disability rules, and a variety of other topics that will undeniably come up.
- You shoulder blame if things don't go well, but receive no praise when things do....
- **... and you do it all FOR FREE.**



Introduction

- **No two Boards are the same... and no Board is perfect.**
- Meketa works with Boards of all sizes and degrees of experience across the country.
- Some settings are extremely formal, while others are very laid back.
- Some Boards are quite political, while others are quite collegial.

Introduction

- People often read or hear the phrase “Best Practices” but don’t always comprehend and apply.
- **Often the best way to learn how to behave is to learn what NOT to do.**



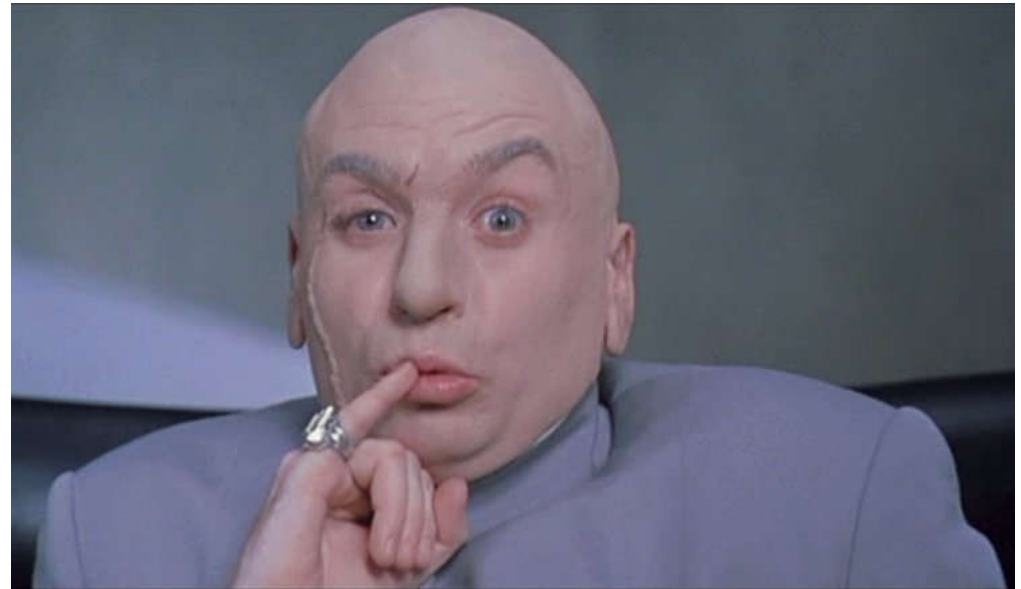
Outline

- We have identified ten common “worst practices” that Boards are susceptible to repeating.
- The **first five worst practices** are broad issues that could be applied to Board Rooms anywhere, regardless of industry.
- The **second five** are focused on issues unique to investing.
- In the end, we will summarize lessons learned.

First Five Worst Practices - Board Rooms Anywhere

Number One – Dominant Member

- Strong personality.
- *Possibly* greater technical knowledge or political power.
- In the absence of reason at times, this person's views often win.



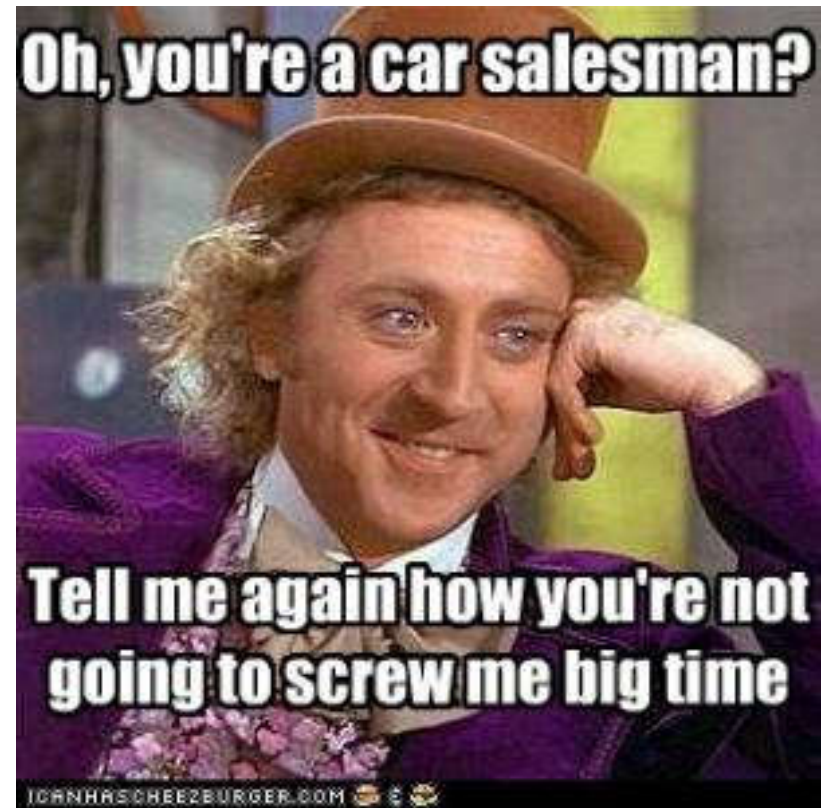
Number Two – Decision Obsessing

- Constantly revisiting decisions that didn't go "their" way.
- Bringing up past actions that are off topic.



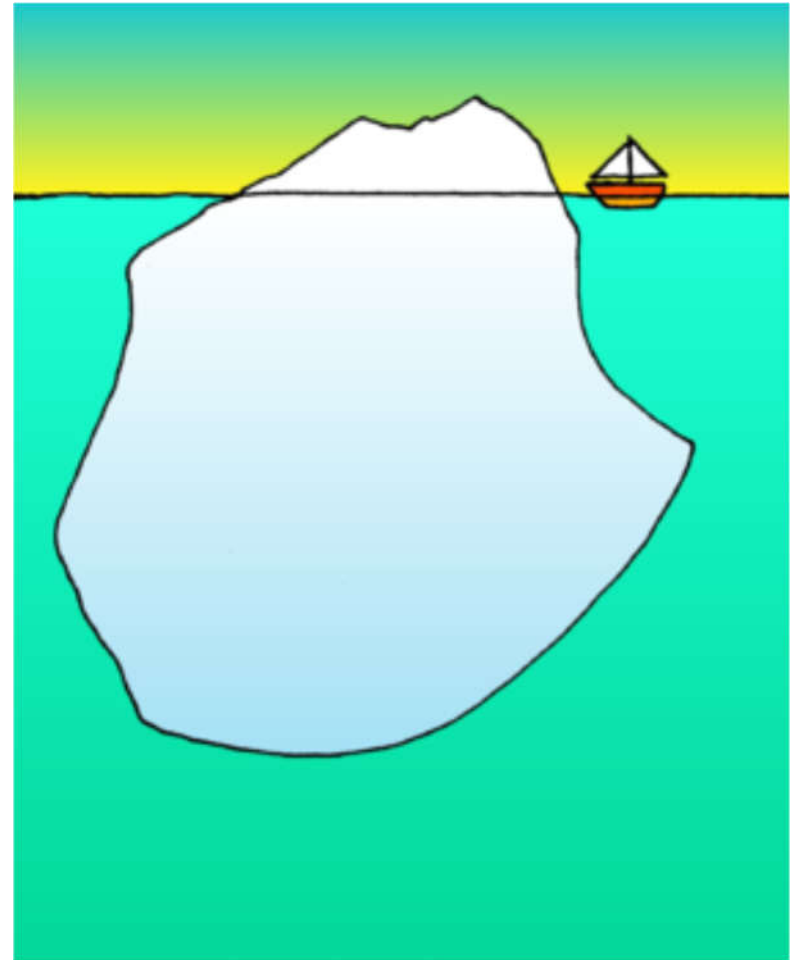
Number Three – Sold on the Sales Pitch

- Over-emphasis on vendor's 30-minute sales pitch.
- Picking the best storyteller, not the best investor.



Number Four – Time Mismanagement

- Time wasted on inconsequential issues.
- Long-spirited debate on unimportant items but rushed decision-making on important issues.
- Only scratching the surface of the iceberg. Missing the important underlying issues.



Number Five – Meeting Fatigue

- Too many meetings.
- Participants lose focus.
- Fall into “routine” trap.
- As a result, Trustees use laptop/phone/iPad during the meeting.
- Come to meetings prepared with non-Board work to review.

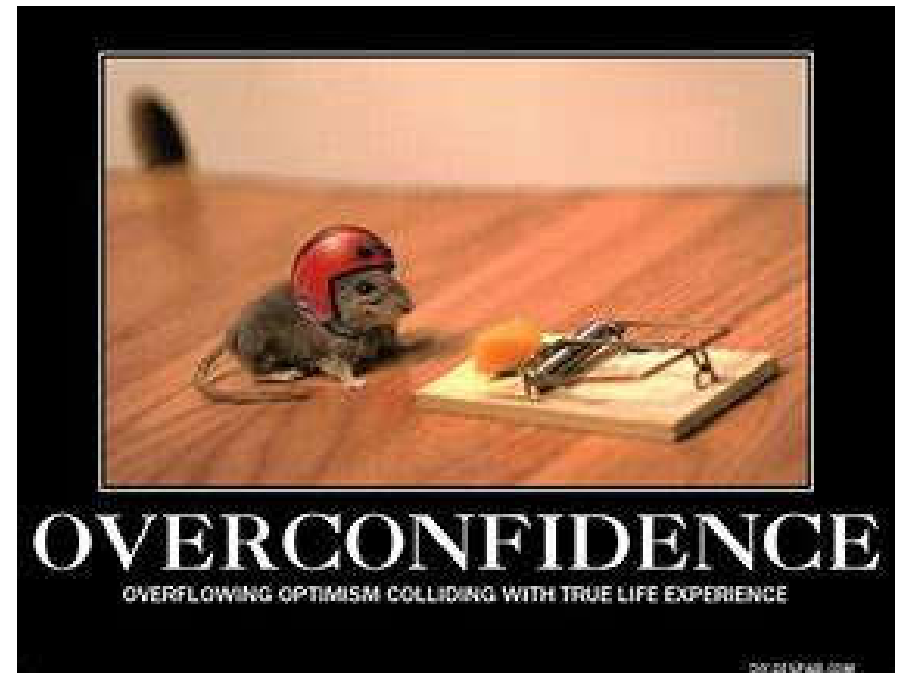


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Last Five Worst Practices – Unique to Investing

Number Six – Overconfidence

- Trying to time the market
- “We need to get out of (headline of the week)”.
- “Markets have gone up for three straight years, time to go to cash...”
- “We should stay the course now, but get out before it goes down.”



Number Seven – Peer Pressure

- Following the herd.
- Fascination with the decisions of other Boards.
- Obsession with performance of other pension Boards.
- They invested in it, so it must be a solid investment....
- Only looking at manager peer rankings.



Number Eight – Clean Slate Effect

- Appeal to terminate a manager to expunge its record from the quarterly report.
- Start fresh with a new manager.
- Can lead to roller coaster effect (hiring at peak performance).



Number Nine – Media Driven Investing

- Making investment decisions based on recent news coverage.
- Bitcoin? – “Bitcoin is up 2 zillion percent, why aren’t we invested?”
- Interest rates? “Interest rates are guaranteed to go up, we need to sell our bonds.”
- Malls are dead? “Amazon is taking over the world. Why does our real estate manager have 20% invested in retail?”



Number Ten – Anchoring

- We can't sell now, we lost money on the investment.
- If we can just break even, then we should get out.
- Digging yourself deeper – unwilling to accept the loss and move on.



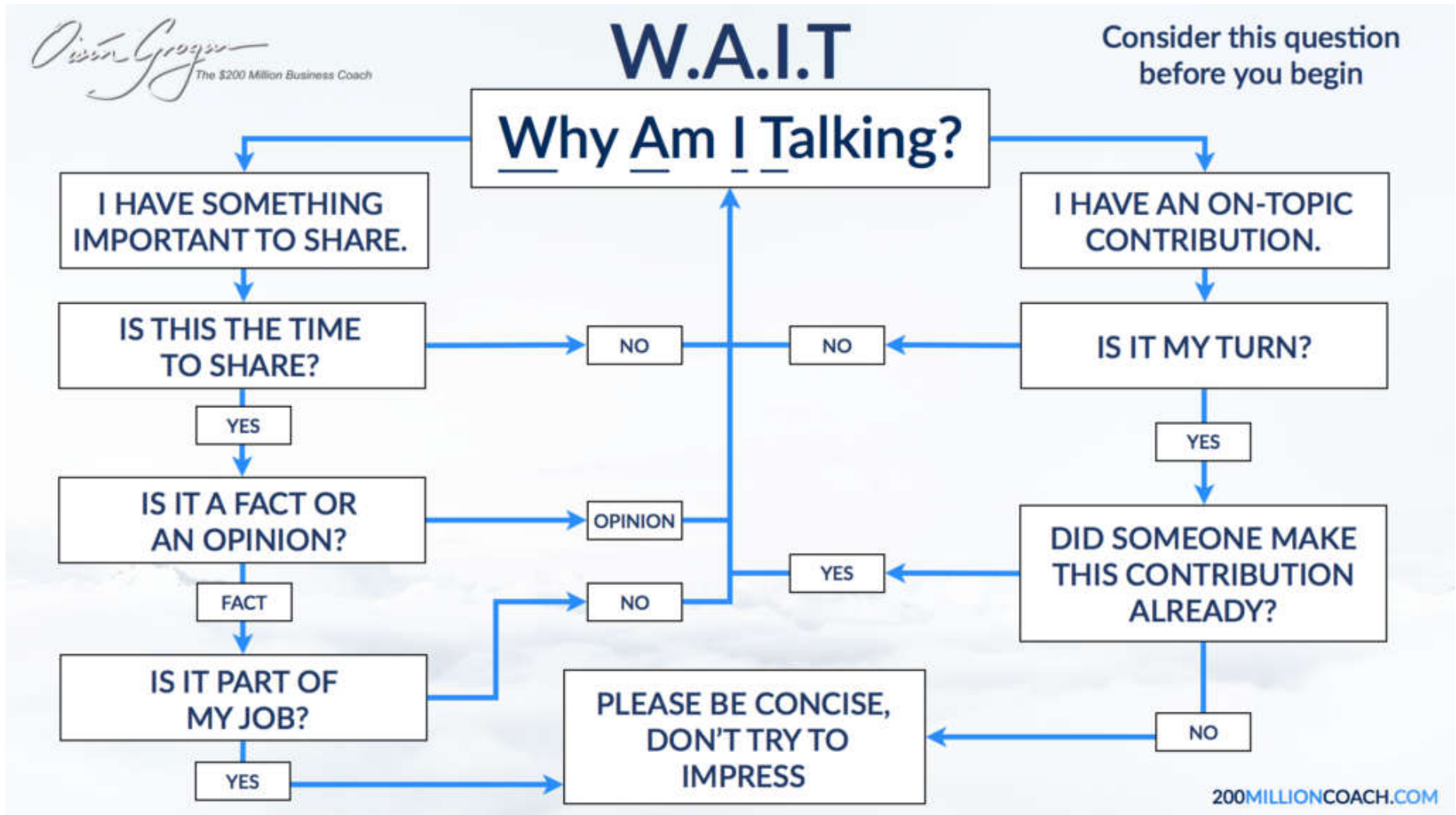
Summary

- You serve a valuable role as a Trustee.
- **It is not an easy task.**
- There are many potential pitfalls.
- **It is important to remain humble and learn from mistakes.**

Recap

- Dominant Member
- Decision Obsessing
- Sold on the Sales Pitch
- Time Mismanagement
- Meeting Fatigue
- Overconfidence
- Peer Pressure
- Clean Slate Effect
- Media-Driven Investing
- Anchoring

Keep this in Mind

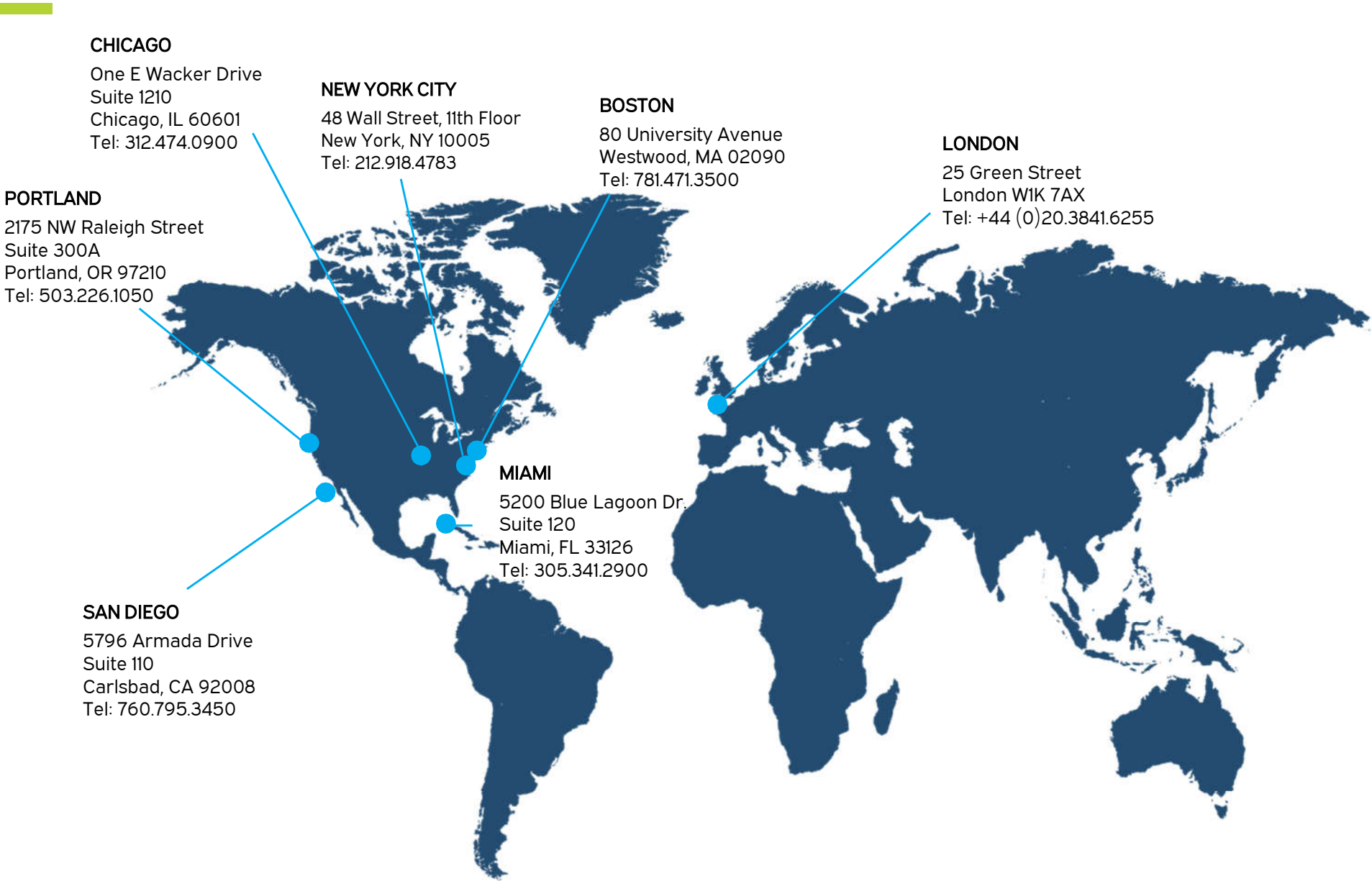


10 Best Practices

- Explicit understanding of Retirement System purpose
- Develop a well-thought-out Investment Policy Statement
- **Follow the Investment Policy Statement!**
- **Clear parameters for hiring and firing managers**
- **Focus on the big picture**
- **Come to meetings prepared**
- Focus on meeting quality over quantity
- Prioritize important items vs. urgent items
- Clear understanding of roles and responsibilities
- Common sense and discipline

Questions?

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