

Fund Governance Analytics



MARQUETTE
UNIVERSITY

Be The Difference.

Governance Evaluation

February 23, 2022

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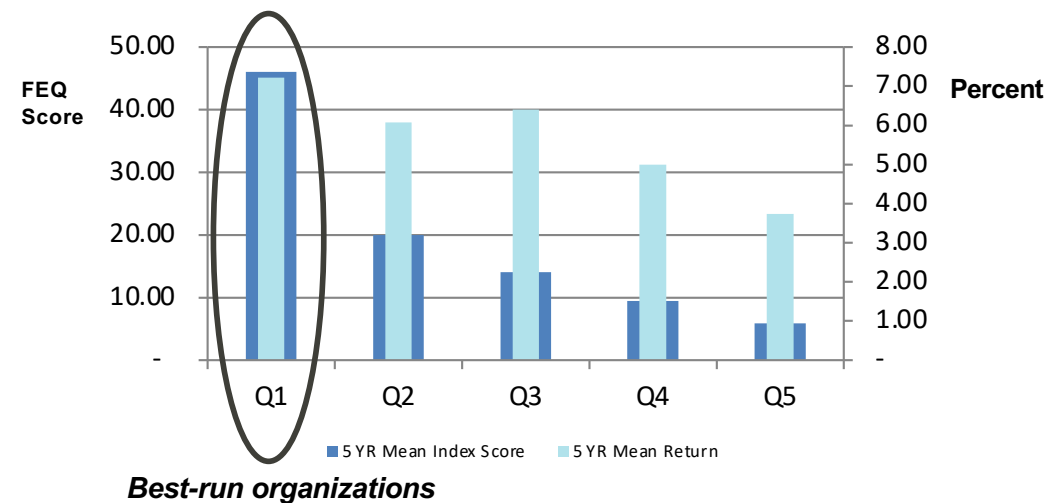
Mission & Governance Challenges

Boards consistently coming up short...

- **Scant time and attention:** many boards meet only infrequently.
- **Focused on the wrong thing:** 70% look more at managers than the allocation, when over 90% of the return is driven by the allocation.
- **Most challenged by** difficulties with board oversight and execution.
- **Confused by** the overwhelming number of investment options and approaches in the market.
- **Must address** competing interests ranging across members, donors, beneficiaries and the community at large.
- **Mission-driven investments:** over half don't know where to go next.

In our study, over 60% of organizations performed below the average, and the average wasn't very good.

Governance Link to Performance



The best-governed organizations outperformed their peers nearly two to one over a five-year period.

Mission & Governance

What are the ingredients for an effective board and organization?

Structure

- Professionalism
- Composition
- Engagement
- Staff / consultant
- Institutional knowledge
- Diligence
- Transparency

Group Processes

Board Tasks

- Mission and planning
- Financial stewardship
- Human resources
- Performance monitoring & accountability
- Risk management
- Community representation & advocacy

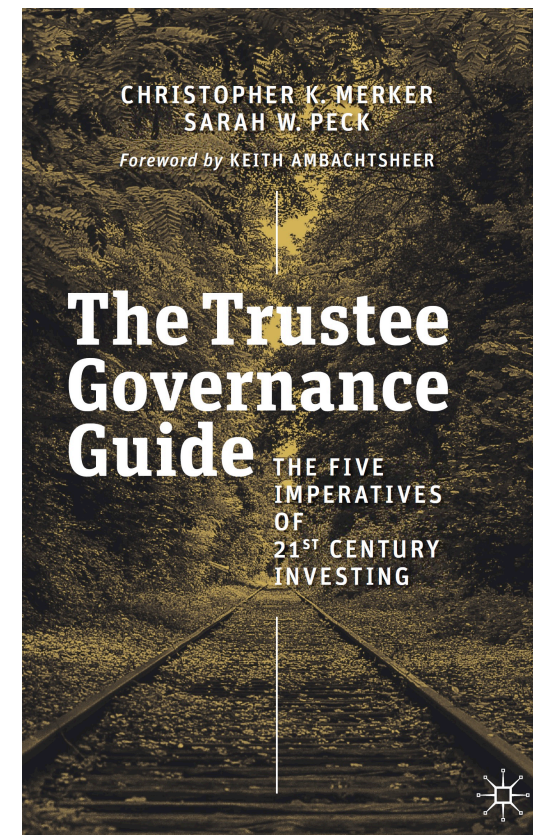
Human Factors

- Leadership
- Culture and trust
- Individual competencies
- Experience
- Diversity
- Group dynamics

Board Competencies

- Board development
- Board management
- Decision-making

FEQ™ = Structure + Process + People



Mission & Governance Board Assessment

GSAC Comprehensive Report 2018 - U.S. Governance Survey FGA

Appendix A – GSAC Essential Elements

A. Governance Effectiveness

- Good board orientation
- Board plans direction
- Evaluates ED performance
- Financially sound/transparent
- Board/ED roles clear
- Resources used effectively
- Board has high credibility
- Board is committed
- Board complies with laws
- Low level of conflict
- Productive board/ED
- Confidence in crisis
- Board meetings well run
- Board uses sound judgment
- Good balance: state

C. Board and Organization

- Directors comply with laws
- Directors are committed
- Open and transparent
- Adaptability and flexibility
- Safe learning environment
- Constructive dissent
- Climate of collaboration
- Board members well informed
- Strong support for CEO
- Board members confident
- Directors have fair process
- Respect for persons
- Board culture encourages
- Respect for confidentiality
- Conflicts of interest
- Board has considered

D.2) Financial Stewards

GSAC Comprehensive Report 2018 - U.S. Governance Survey FGA

Quick Check Report

No.	Statement	Low	High	Avg.	Legend	Peer Avg.	Universe Avg.
1	This organization's orientation for board members adequately prepares them to fulfill their governance responsibilities.	2	5	3.6	Positive	3.6	3.6
2	This board is actively involved in planning the direction and priorities of the organization.	4	5	4.7	Positive	4.7	4.7
3	The board does a good job of evaluating the performance of the chief executive (CEO, CFO, CIO, Treasurer or Executive Director).	3	5	4.3	Positive	4.3	4.3
4	This organization is financially sound (viable and stable).	3	5	4	Positive	4	4
5	Board members demonstrate clear understanding of the respective roles of board and chief executive (CEO, CFO, CIO, Treasurer or Executive Director).	4	5	4.2	Positive	4.2	4.2
6	The organization's resources are used efficiently (good value for money spent).	4	5	4.3	Positive	4.3	4.3
7	The board has high credibility with key stakeholders (e.g. funders, donors, beneficiaries, investors, taxpayers, etc.).	2	5	3.5	Positive	3.5	3.5

Rating Scale:

- Agree Strongly (5)
- Agree (4)
- Agree Somewhat (3)
- Disagree Somewhat (2)
- Disagree (1)
- Disagree Strongly (0)
- Don't Know (-1)

Key:

-
 >3 (Positive)
-
 2-3 (Attention)
-
 1-2 (Worrisome)
-
 <1 (Very Worrisome)
-
 Variance >= 3

6 of 20

Key Dimensions

- Quick check
- Board structure
- Board and org. culture
- Board responsibilities
- Board process
- Governance quotient

Highlights

- Areas of strength
- Areas for improvement
- Divergent views
- Gaps in knowledge
- High priority items
- Overall effectiveness

Mission & Governance

Frequently asked questions (FAQs)

How often should my organization conduct a board assessment?

Recommended once per year, but at least every two years, as boards regularly turn over members.

What are the benefits of board assessment?

Clarify mission & objectives of the organization. Identify board strengths, areas in need of improvement, knowledge gaps, priority items and areas of commonality and disagreement.

Isn't this a huge commitment of time and resources?

Our online self-assessment tool is easy to administer, and concisely reports actionable results. The survey, while in-depth, only take about 45 minutes to answer, and can be completed on a smart phone or tablet. There is also a short-version of the survey available (Quick Check). The organization can also selectively include key staff along with board members.



Fund Governance Analytics



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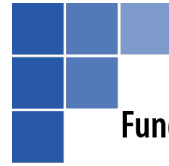
Governance Portal

- Dedicated client portal with convenient access
- Easy-to-administer
- Secure
- Immediate results
- Sophisticated reporting
- Ongoing tracking for trend analysis
- Usable from a computer or mobile device

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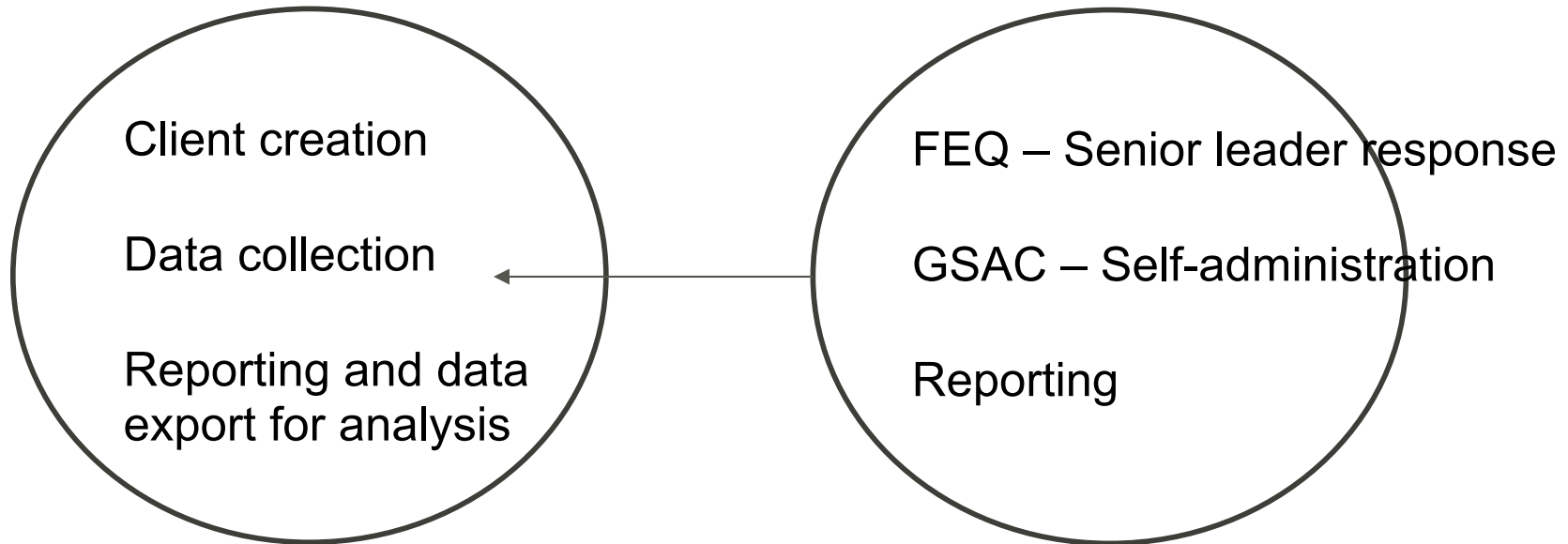
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Portal: Two Views

Admin View

Client View



Governance Portal



Dashboarding



The screenshot displays the FGA Governance Portal interface. The top navigation bar includes the FGA logo, a user profile for Chris Merker, and a hamburger menu. The main content area is divided into two sections. The left section, titled 'Dashboard', shows a 'FEQ Score' of 91.2 - A and 'Top Quintile Among Peers'. The right section, titled 'FEQ Comprehensive Report Merker Pension 1', features a bar chart titled 'FEQ Factors - Board Turnover by Quintile'. The chart compares 'Merker Pension' (highlighted in green) against 'Universe' and 'Public Pension Fund' across five quintiles (Q1-Q5). The y-axis represents the percentage of board turnover, ranging from 0% to 40%.

Category	Q1	Q2	Q3	Q4	Q5
Merker Pension	~38%	~22%	~18%	~10%	~38%
Universe	~22%	~18%	~18%	~10%	~38%
Public Pension Fund	~22%	~18%	~18%	~10%	~38%

Reporting and Peer and Universe Benchmarking

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Client Use



Fund Governance Analytics



Date: August 15, 2018
 To: Board of Retirement
 From: James Wilbanks, Ph.D., Retirement Administrator
 Subject: 2018 U.S. Public Pension Governance Assessment Report

Attached are several documents related to this survey from Benefits Magazine that discusses the research effort by the firm Fund Governance Analytics (FGA). One of the key findings is the relationship between measures of fund governance and investment performance.

The next document is the survey instrument that was used for this assessment. I completed the survey on behalf of MCERA. Significant research behind the survey and the factors that influence the results are detailed in the instrument.

The final document shows the 2018 results for MCERA. MCERA placed in the top quintile of public plan respondents. With an FEQ score of 68.98, the MCERA score is well above the average FEQ score of the top decile of respondents.

I believe this result confirms what all of us know, the importance of good governance of the organization. We should all be extra diligent in our supports not only what we all believe, but that also shows

FGA - Assessment

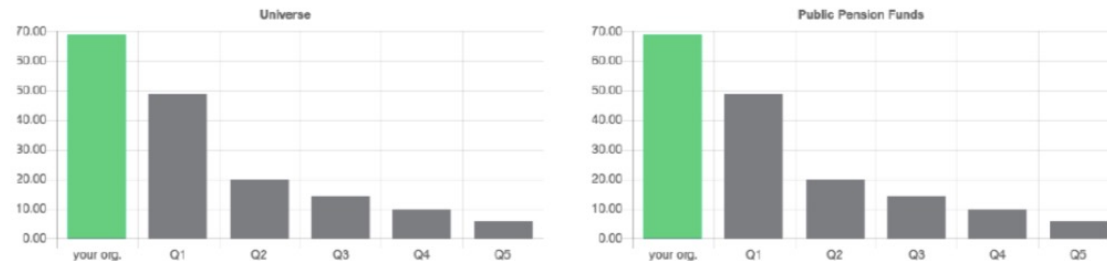
<https://www.fgafgs.com/assessment/report/print/feq/3>

FEQ Comprehensive Report 2018 - U.S. Governance Survey



FEQ by Peer Group and Universe by Quintile

There are significant differences in the FEQ that separate Quintile 1 from the other quintiles.



Your organization's FEQ score is 68.98. This places you in the first quintile among the U.S. Public Pension peer group.

Fund Governance Assessment System™ (FGS)

Module 1: FEQ™ – Board Structure Review

Module 2: GSAC – Board Process Review

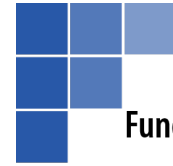
One-of-a-kind, governance benchmark database allows peer and universe comparisons.

System designed to collect data on 182 governance attributes.

Module 1: The FEQ™ - Structure Review

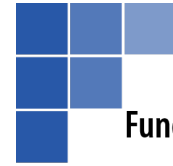
- 1) Professionalism
- 2) Board Composition
- 3) Engagement
- 4) Staff
- 5) Institutional Knowledge
- 6) Due Diligence
- 7) Transparency

Data collected from the organization's most senior staff member in typically less than 30 minutes.



Additional Benchmarks

- 1) Use of Policies
- 2) Board Training and Development
- 3) Board Diversity
- 4) Compensation
- 5) Professional Experience
- 6) Self-assessments



Other Crucial Data

- 1) Market Value of the Assets
- 2) Investment Returns
- 3) Funding Ratios
- 4) Investment Expenses
- 5) Asset Allocation

Module 2: The GSAC - Process Review

- Exhibit good criterion-related validity related to external and internal ratings of organizational effectiveness.
- Able to discriminate between stronger and weaker aspects of board functioning.
- Established a high degree of correlation between scores on the Quick Check and the other 11 subscales and the Governance Quotient.

GSAC Key Dimensions

- 1) QuickCheck
- 2) Board Structure
- 3) Board / Organizational Culture
- 4) Board Responsibilities
- 5) Board Processes
- 6) Governance Quotient

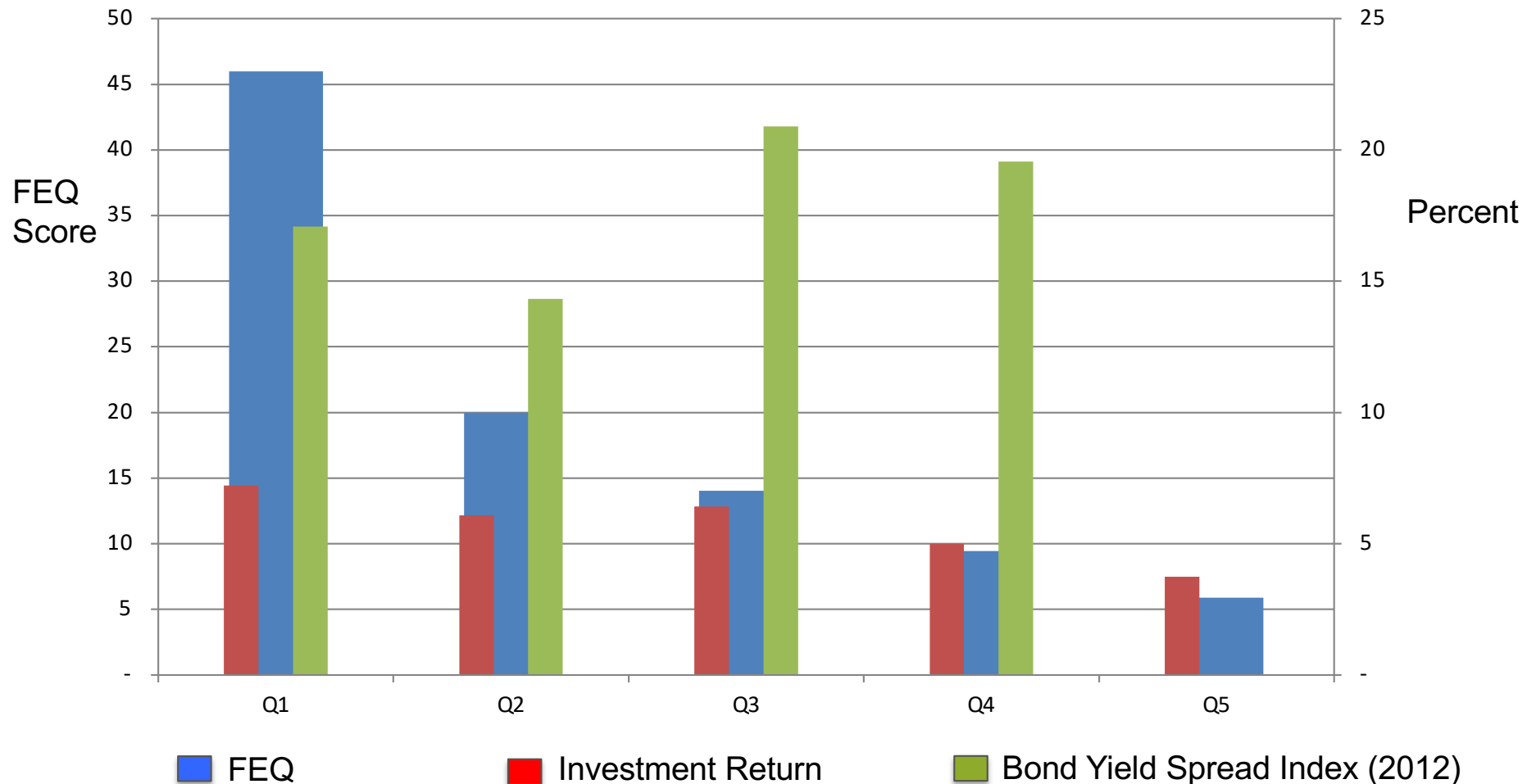
Data collected from board members, senior staff and the chief executive.

QuickCheck takes less than 15 minutes to complete.

Full assessment in 45 minutes or less.

Public Pensions Results

Public Pension Fund Performance by FEQ™ Quintile, 5 YR Average*



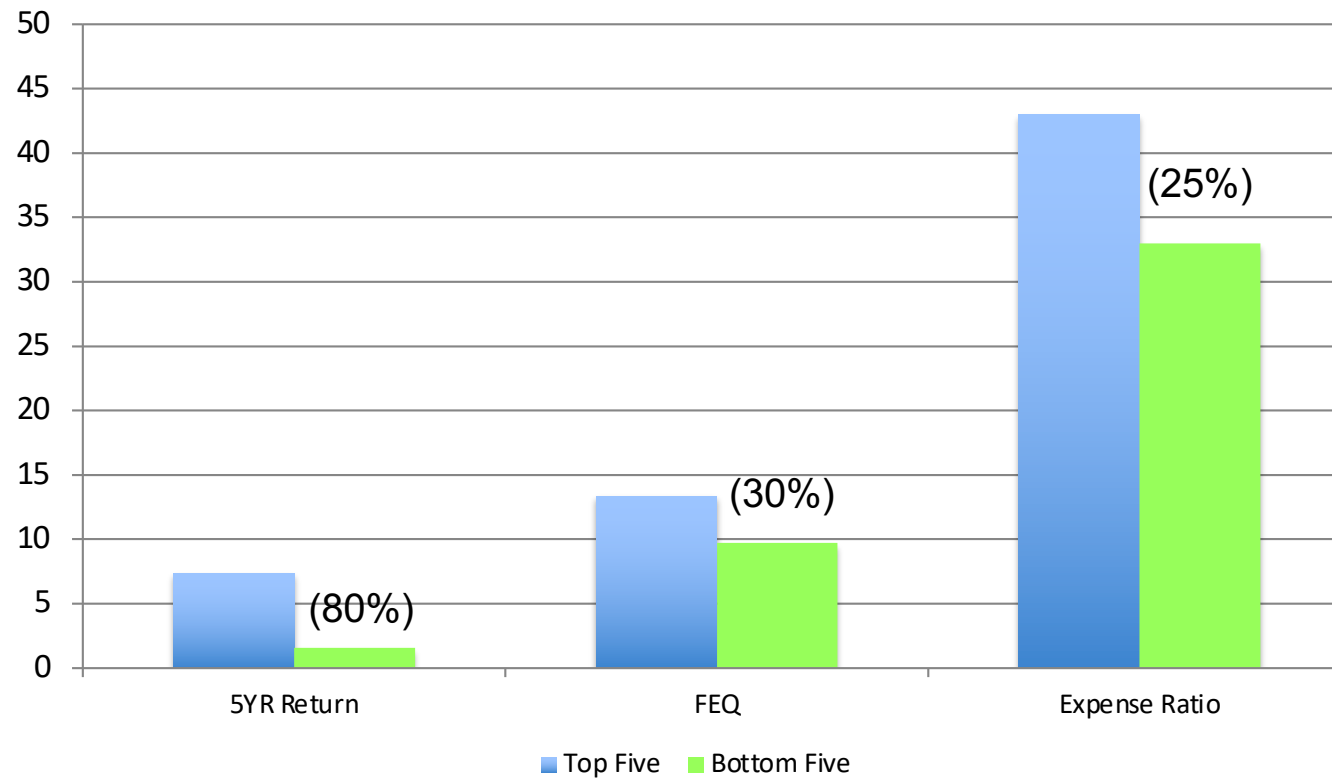
Average 5 YR Return is in percent, the FEQ™ is in standardized governance units and the Bond Yield Spread Index is basis points adjusted (divided by 10) to maintain the scale.

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*Based on the work, *Asset Owner Governance and Fiduciary Effectiveness: The Case of Public Pension Funds*, by Christopher K. Merker, Ph.D., CFA, ©2017, Marquette University (2008-12)

Public Pensions Results

Average of Top Five and Bottom Five Public Pension Plans as Ranked by 5 YR Investment Returns*

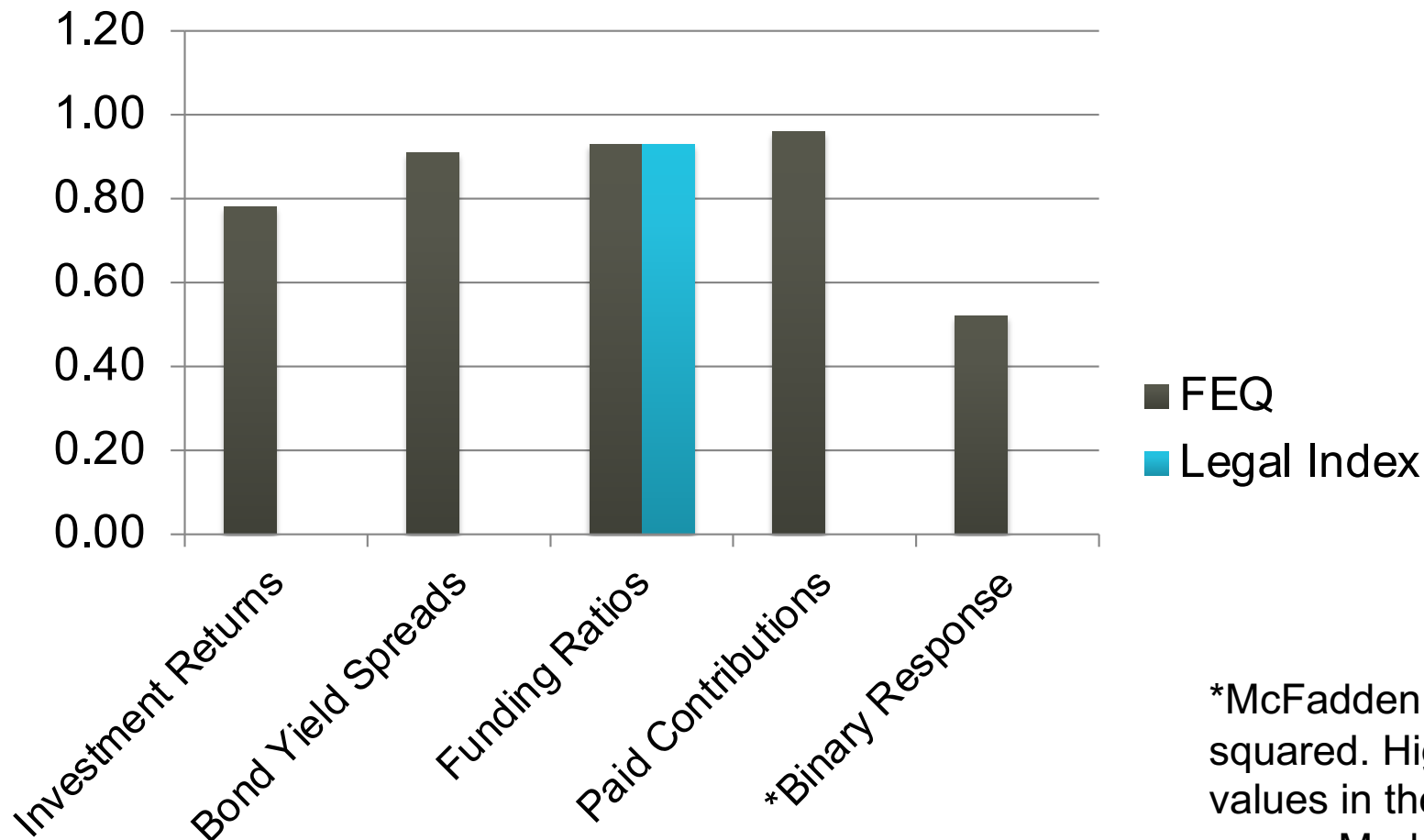


Average 5 YR Return is in percent, the FEQ™ is in standardized governance units and the Expense Ratio is in basis points.



Governance Explanatory Power

R-Squared



*McFadden Pseudo R-squared. High values in the 0.20-0.40 range. Model was 93% predictive.

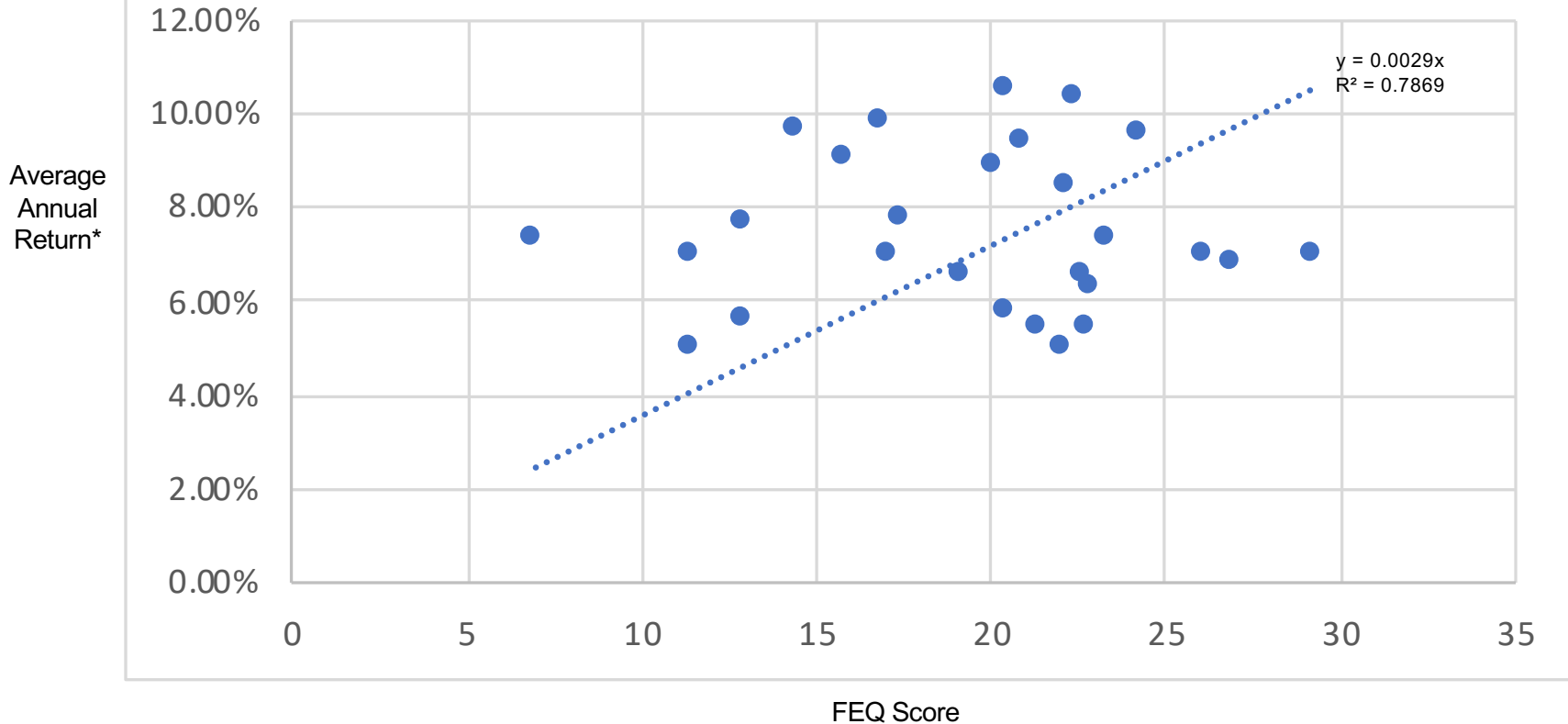
Higher Ed Results



Fund Governance Analytics



Governance in Higher Ed - FEQ and Return



R^2 was same value as with our original study of public pensions.

Interpretation: 1 unit increase in the FEQ, 0.29% increase in annual return.

Governance Summary

- Top FEQ organizations outperform their peers 2 to 1.
- Top FEQ organizations see more consistent performance outcomes.
- The FEQ is 93% predictive of sustained funding.
- Top FEQ organizations see lower bond yields.
- Positive change in 12 months

Ten unit increase in the FEQ →

- **360 bps increase in annual return**
- **\$37 mm decrease in annual required contribution**

U.S. Public Pension Survey



Fund Governance Analytics



Topic	Finding
Self-assessment	A vast majority of organizations indicated they conduct governance self-assessment either infrequently or not at all.
Use of investment policies	Nearly 80% of organizations are using some form of investment policy.
Review of policies	Typically reviewed every year or two.
Diversity	Women, while in the minority, are still better represented than minorities, which tend to be a low percentage of board composition.
Compensation	Only about a quarter of organizations see some form of board compensation for service.
Training	Most conduct some training, typically on an annual basis.
Background in investments	While half believe they have a medium to high level of professional experience on the board, at least a third of all boards also say they have low representation of skill and experience on the board.
Expense	A wide-range of investment expense structures exist.

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Fund Governance Analytics



Now Available - *The Trustee Governance Guide: The Five Imperatives of 21st Century Investing*

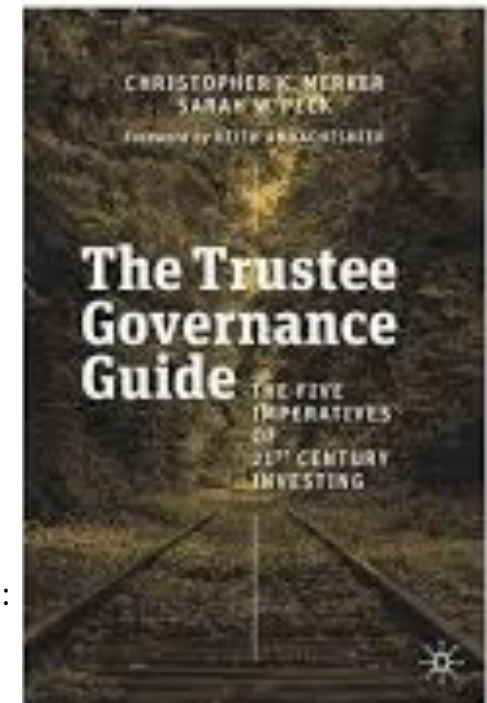
Over 80% of the financial assets in the United States fall under the purview of a trustee. That's a big responsibility for an estimated 1% (around 1.5 million people) of the U.S. working population charged with overseeing investments for millions and millions of beneficiaries, corporations, public sector and non-profit organizations. In a world proliferated by investment products, increasingly dominated by indexes, faced - particularly in the pension world - with increasing liabilities, more regulation and a growing number of social and sustainability objectives, what's a trustee to do?

The *Trustee Governance Guide* is here to help guide today's board trustee through the brave new world of 21st century investing. The *Guide* focuses on the critical aspects of the Five Imperatives: Governance, Knowledge, Diversification, Discipline and Impact.

Based on over a decade of research, practice, and discussions with many key decision makers and influencers across the industry, this book addresses the many topics related to better governance, greater mission-driven, financial performance and impact. The questions the book addresses include:

- What is good governance, how do we know it when we see it and why does it matter?
- How much knowledge is necessary to be a competent board member?
- Why should board self-assessment become a standing, annual review item?
- As a board, where should our time be spent to be most effective?
- What are the key elements of a diversified portfolio?
- What's the difference between socially responsible and ESG investing?
- Can I focus on sustainability and still be a good fiduciary?

This book will provide a way for boards to improve and benchmark their own governance performance alongside their peers, and uniquely covers related investment topics in each chapter.





Fund Governance Analytics



Be The Difference.

Praise For - *The Trustee Governance Guide: The Five Imperatives of 21st Century Investing*

“Trustees in the modern world are faced with an ever-changing investment environment. Now more than ever a guide to governance is essential reading for them. This book is structured in a very simple, intuitive fashion to help trustees easily research topics that may challenge them during the discharge of their responsibilities. I found the fifth imperative, Be Impactful, particularly useful as it deals with the biggest challenge that investment professionals face today: what is the purpose of finance? The answer to this question lies at the very heart of what it means to be a trustee.”

—**Paul H. Smith**, President & CEO, CFA Institute

“This book provides a thorough, accessible and practical guide for trustees and staff that have the honor and the responsibility of stewarding long-term capital for a non-profit institution or pension. Authors Christopher Merker and Sarah Peck advance the investment governance field by making an informed and strong case for understanding ESG as a risk management issue and by introducing a Fiduciary Effectiveness Quotient assessment tool. Investment stewards that want to understand and follow best practices will benefit from reading this book.”

—**Cathleen M. Rittereiser**, Executive Director of Commonfund Institute and co-author of *Foundation and Endowment Investing*

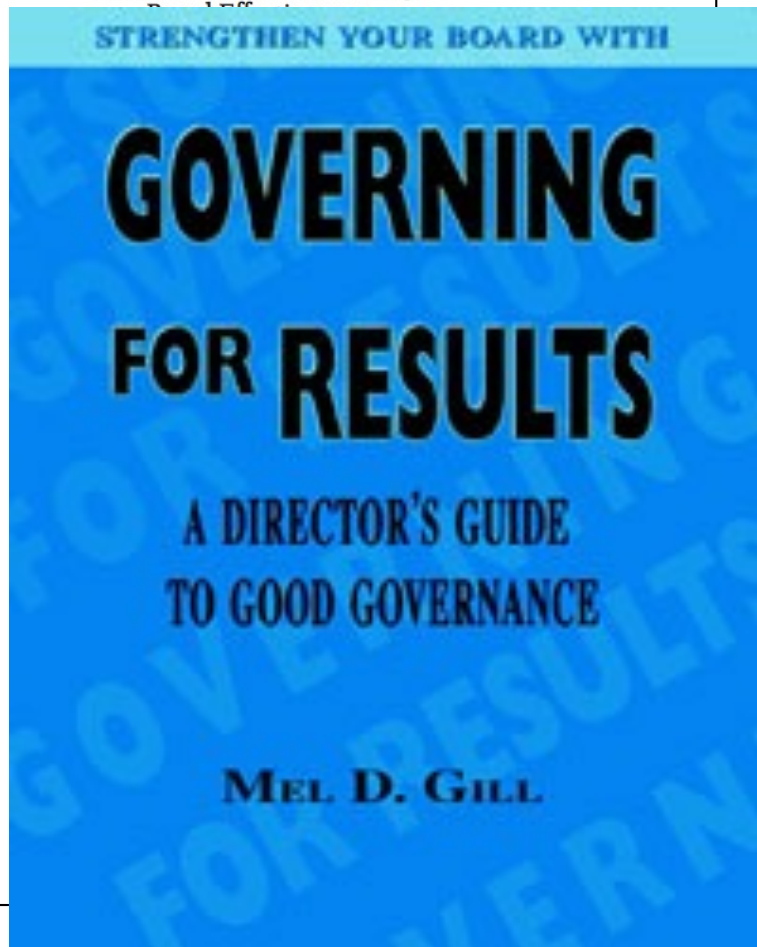
“Finally, a book that demonstrates empirically what many practitioners have long believed to be true: board governance can significantly enhance investment returns. In addition to showing the importance of good governance, the authors also outline the key attributes of a superior governance structure, and how any board can improve its governance structure. The five imperatives, outlined herein, offer an accessible guide to improving board governance and performance. The Trustee Governance Guide should be required reading for all trustees and trust executives.”

—**James Wilbanks**, Executive Director, Mendocino County Employees Retirement Association



Other Publications

The Governance Self-Assessment Checklist
An Instrument for Assessing



JULY 15, 2017

The Dawn of Asset Owner Governance Measurement

Well, it's here. After five years of research, over five thousand documents of public pension plan meeting minutes analyzed and culled for data, over 2,500 legal cases examined, hundreds of human hours spent researching, analyzing and modeling, 43 hours of course work, four research analysts working part-time over 2.5 years, one

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CATEGORIES

ESG

Governance

Impact Investing

Industry Voices on Governance

Intro



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Enterprising Investor

Practical analysis for investment professionals

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14 August 2017



Pension Trustees: Corporate Governance and the Behavior Gap

By Christopher K. Merker, PhD, CFA

Posted In: Behavioral Finance, Economics, Leadership, Management & Communication Skills, Portfolio Management

When I entered institutional investing, I believed this buttoned-down world would be different — at least from the retail space.

I expected professional boards composed of professional people with business backgrounds and advanced academic degrees. I imagined institutional investment management would be like the Intel Pentium MMX commercials from the late 1990s, those "Play that Funky Music" ads with the people in the white clean room suits: predictable and dependable, not a speck of dust and nothing out of place.

I was in for an awakening. It turns out boards and investment committees are like everything else — imperfect entities run by imperfect people. They can be distracted, emotional, self-interested, unengaged, and at cross-purposes, often with members who lack investment training or experience.

At about the same time, I began to teach a unit on corporate governance at Marquette University. These two developments prompted me to wonder: What if we look at asset ownership organizations — pensions, foundations, and endowments — through a similar lens as corporate governance? Could we help these organizations do better?

Based on this initial theory, I came up with a five-year PhD research project. I soon discovered that if you want data on this topic, you have to generate it yourself. While good financial and actuarial data on public pension funds was available, there was a dearth of reliable information on governance. So with my colleagues at the Marquette University business and law schools, we created a research protocol and began to gather the data.

I feared the investment performances of public pension funds would all look the same. I retained that image of those spotless clean room suits. After all, the country's largest investment funds were staffed by the most professional investors, right? And then all



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Upcoming Conferences

21st Annual GIPS Standards Conference
14–15 September 2017
San Diego, California, United States

Alpha and Gender Diversity Conference
18–19 September 2017
Toronto, Ontario, Canada

Fixed-Income Management 2017 Conference
Finding Opportunity through Differentiation
12–13 October 2017
Boston, Massachusetts, United States

Equity Research and Valuation 2017 Conference
14–15 November 2017
New York, New York, United States

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Mnuchin: Tax break for carried interest could remain for some

The tax overhaul backed by the Trump administration might take away the tax break for carried interest from hedge funds but let businesses that create jobs continue benefiting from it, Treasury Secretary Steven Mnuchin said. "What we are focused on is there are many other types of funds that do create jobs, and we want to make sure we don't discourage investment," he said. *Bloomberg (21 Aug.)*

UK clears up Brexit position on financial contracts

The UK Department for Exiting the European Union issued a position paper Tuesday clarifying its stance on civil judicial issues, which would apply to financial contracts. One key point from the paper is the call for pre-Brexit contracts to be enforced by EU rules after the UK withdraws from the bloc. *Politico Pro (subscription required) (22 Aug.)*

Google-Walmart partnership aims to compete with Amazon

Visit our web site: www.fundgovernanceanalytics.com and our blog www.sustainablefinanceblog.org for regular updates.

In Conclusion

Good governance by institutional fund asset owners (pensions) makes a significant incremental difference to value creation as measured by their long-term risk-adjusted rate of return . . . [F]unds can create more value if they correctly assess their governance and determine an investment strategy commensurate with their capabilities.”

- Gordon L. Clark and Roger Urwin

Governance and leadership are the yin and the yang...without governance you risk tyranny, fraud and personal fiefdoms. If you have governance without leadership you risk atrophy, bureaucracy and indifference.

- Mark Goyder



Fund Governance Analytics



Appendix

About Fund Governance Analytics, LLC (FGA)

Founded in 2017, FGA is the ESG research, education and technology transfer partnership of Marquette University. A research and technology partner to leading global organizations such as Commonfund Institute, CFA Institute and Nasdaq, FGA has conducted groundbreaking research in ESG data analytics, corporate short-termism and asset owner governance, and has played a critical role in the development of Global ESG Investment Product Disclosure Standards (CFA ESG Working Group) and ESG certification (CFA ESG Investing Certificate Program). FGA's work has been cited in documentation and policy recommendations to the Securities & Exchange Commission's (SEC) Asset Management and ESG Subcommittees.

Christopher K. Merker, Ph.D., CFA

Christopher K. Merker, PhD, CFA, is a director with Private Asset Management at Robert W. Baird & Co. He holds a PhD in investment governance and fiduciary effectiveness from Marquette University, where he has taught the course “Sustainable Finance” since 2009. Executive director of Fund Governance Analytics (FGA), an ESG research partnership with Marquette University, he is a recent member of the CFA Institute ESG Working Group, an international committee developing ESG investment product disclosure standards, publishes the blog, [Sustainable Finance](#), which covers current topics around governance and sustainability in investing, and is co-author of the book, [The Trustee Governance Guide: The Five Imperatives of 21st Century Investing](#).

Sarah Peck, Ph.D.

Associate Professor of Finance at Marquette University, Dr. Peck is the co-inventor of the Fiduciary Effectiveness Quotient (FEQ)[™]. Her research interests are in the area of ownership structure, leveraged buyouts, board of directors, and other topics in corporate governance. She has published in the *Journal of Financial Economics*, *Journal of Corporate Finance*, *The Journal of Forensic Accounting*, among other journals in finance and accounting.

She serves regularly as a speaker and panel participant in the area of ethics, divestment, and socially responsible investing. From 2007 to 2014, she was a trustee for the Milwaukee County Pension Board with over \$1.8 billion in assets, and Chair of its Investment Committee. Dr. Peck served as Department Chair from 2004 to 2014. She is member of the American Finance Association, The Financial Management Association, The American Finance Association, and the CFA Society Milwaukee.