



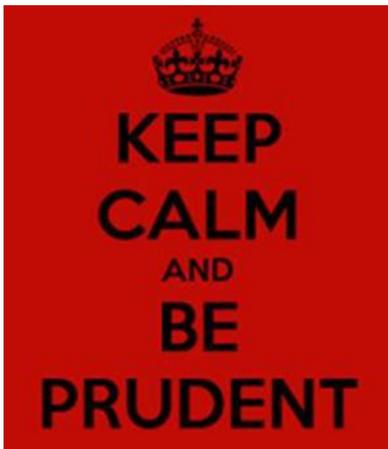
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Never Stand Still

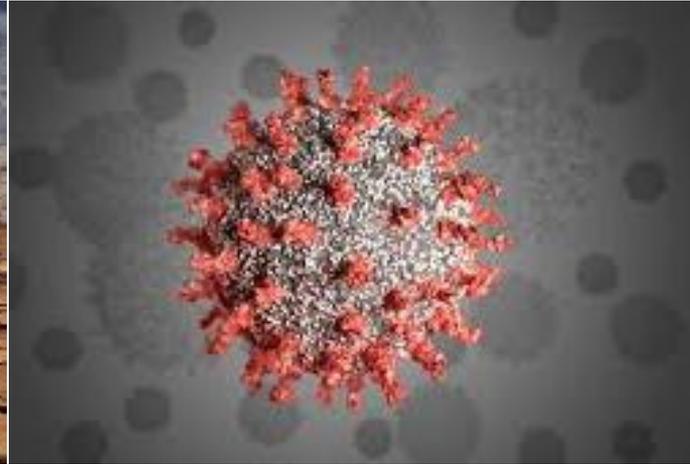
Faculty of Law

Prudence *in extremis*

CEPAR Colloquium
Online
December 2021



The challenges of the past few years ...



Are traditional notions of prudence sufficient?

The historical trajectory

- From gilts → non-sovereign debt → equity → modern portfolio theory
- From legal lists → duty of care + best interests + proper purposes

The familiar trustee toolkit to address risk

- Careful research to reduce information uncertainty
- Diversification, incl strategic asset allocation
- Insurance to curtail specific risks

The bottom line:

Governance structures and processes are crucial for decisive and timely management of extreme risks



The challenge of climate change

What we 'know'

- Slow moving (ie we might have time)
- Ubiquitous (ie we cannot get out of the way)
- Mitigation is expensive (and compounded by crisis of the commons)
- Trustees must maintain narrow focus on members' best financial interests

Where is the uncertainty for trustees?

- How quickly things will happen and when markets will react
- Political risk
- What peers are doing

What to do?

- Identify potential 'winners' and insure specific risks
- **Brief external investment managers**
- **Product design: launch tailored ESG options**
- **Governance: revisit board protocols**
- **Communicate with members (see *REST*)**
- **Join 'norm-ing' movements**



Coping with COVID-19

What we 'know'

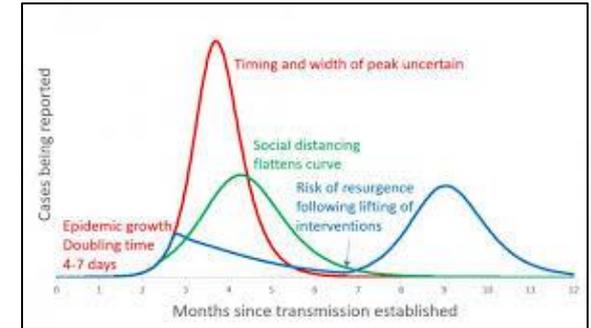
- “When?’ not “If?”
- Fast moving and (somewhat) predictably viral
- Has real and financial market impacts
- Can affect decision-makers personally

Where is the uncertainty for trustees?

- How long it may take to tame
- How members will react in the meantime
- Political risk

What to do?

- Disaster recovery plans
- Ensure liquidity management plans account for ‘catastrophe’ risk
- **Ensure switching procedures are efficient, robust and fair**
- **Harness information network**
- **Ensure efficient governance structures and processes**



Bitcoin blues ...

What we 'know'

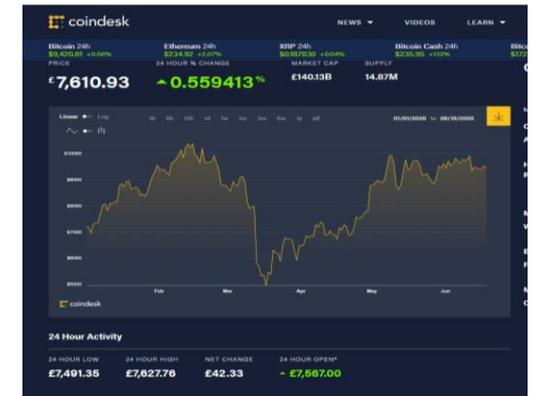
- Very trendy – and now widely recognised as an asset capable of being held on trust
- Extreme price volatility

Where is the uncertainty for trustees?

- Endemic unpredictability
 - Lack of transparency
 - Thin trading volumes
- Custody risk
- Scandal risk

What to do?

- Avoid



Traditional 'prudence' is outgunned in the face of extreme risk

The capacity to respond decisively and in a timely manner depends on governance structures and processes

- Delegations
- Risk frameworks
- MIS
- "Institutional memory"

Product design crucial in a DC world

- Investment menu
- Switching and unit pricing

Member communications are crucial



Questions, thoughts etc

