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Russell Investments publishes findings of UK investment governance survey: “Assessing the ‘governance gap’”

LONDON 16 NOVEMBER 2009- [Russell Investments](http://www.russell.com) today published the results of a 200-strong survey of UK defined benefit (DB) schemes. The survey sought to map the UK Investment Governance landscape, exploring what decision making infrastructure is in place for trustee boards and how this framework compares with best practice recommendations.

“Russell estimate that poor governance costs funds up to 3% per annum¹, so we wanted to get a clearer picture of typical investment governance structures, particularly to see if they might have changed in a post credit crunch world,” said Sorca Kelly-Scholte, Director, Consulting and Advisory Services.

“The findings were an intriguing mix of common sense and complete surprise,” Kelly-Scholte continued. We found that larger schemes tend to be better resourced than smaller ones and that many had investment committees and independent trustees, results we would have expected. What surprised us was the speed of investment decision-making, which was broadly the same in both large and small funds. This suggests that the extra resources larger funds enjoy are being misdirected or used ineffectively. This finding also meshes with another discovery which alarmed us, namely that there seems to be a crucial accountability gap in funds of all sizes. Trustees and chairs alike seemed uncertain who if anyone was ultimately accountable for the decisions taken collectively by the board. Over 30% of respondents believe that multiple groups are responsible for each investment decision.

“86% of funds were confident that they had the best decision making structure in place, which was not unusual given that we know a ‘confidence bias’ is evident in most behavioural finance studies. However 40% were unsure their fund was nimble enough to respond fast to changing market conditions, which given recent events seems a critical characteristic of any effective decision making system.

“These observations have implications for another stand-out finding from our survey, that 75% of funds did not feel they had any meaningful understanding of fiduciary management, saying that they had ‘little or no knowledge’ of the approach. Given that fiduciary management could be one way to address some of the governance gaps our survey presented, we found the mismatch between provider hype and market confidence very striking. It is clear that providers have so far failed to present the approach to the

¹ Ambachtsheer, 2006

marketplace coherently, leaving funds uncertain of the proposition and understandably circumspect about its usefulness.”

Russell Investments intends repeating the UK Investment Governance Survey annually to track how approaches to investment decision making practices are changing. Parties interested in reading the full 2009 report are invited to log on at www.russell.com

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About Russell

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