

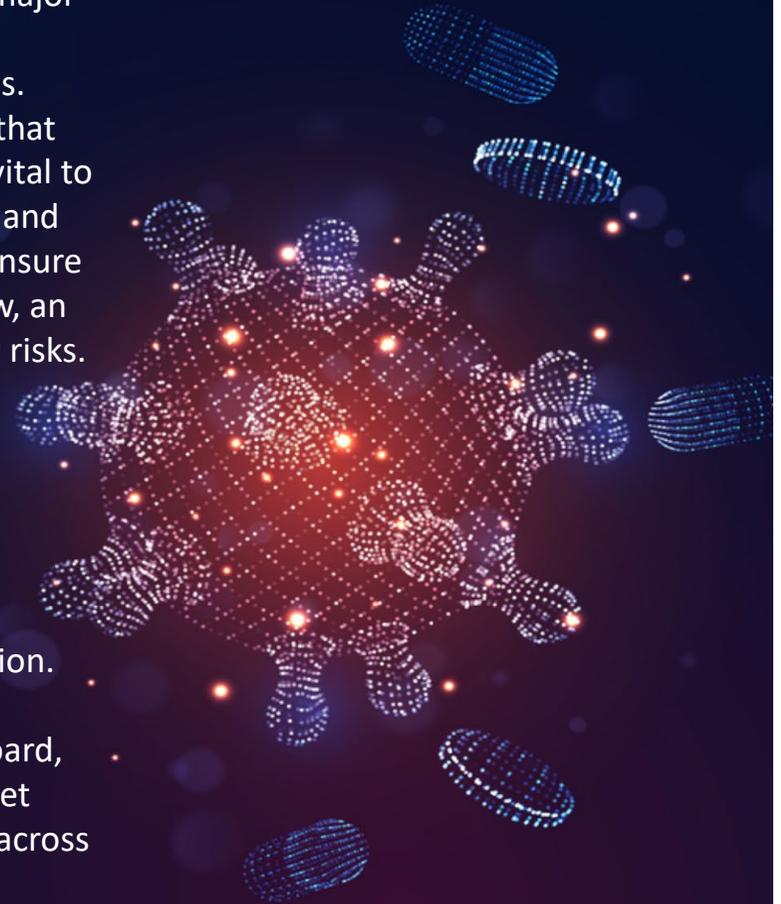


Frontier Investment Governance Checklist

8 April 2020

INVESTMENT GOVERNANCE CHECKLIST

The COVID-19 pandemic and related economic and market events is a major event for institutional investors responsible for overseeing investment strategies designed to meet the (often long-term) needs of beneficiaries. Our observation working with a wide range of institutional investors is that well-structured governance arrangements and supporting policies are vital to manage across a range of different environments. These arrangements and policy settings are most needed in a significant stress environment to ensure appropriate risk management takes place and can be tested. In our view, an active approach is required to manage fast-moving events and evolving risks. To assist navigate this environment, Frontier has prepared this investment governance focussed checklist/action plan for Boards. The intended audience of this checklist is intentionally broad as we believe it is relevant for all institutional investors. While ultimately the Directors/Board is responsible for the investment governance arrangements, in practice, most Boards employ some form of delegation commensurate with the complexity of the organisation. We consider three key areas (governance, liquidity and valuations of investments) and the roles of the various groups involved (Directors/Board, Investment Committee and the Management Group/Internal Team/Asset Consultant). While we recognise the roles of various groups may differ across organisations, we believe the principles remain largely the same.



GOVERNANCE



GOVERNANCE - FOR DIRECTORS AND BOARDS

For all organisations, sound governance frameworks are paramount. All Board's must ensure the best interests of members/sponsors/beneficiaries are front of mind in their decision making.

Policies	<ul style="list-style-type: none">• Ensure all policies, procedures and decision-making structures are robust and up-to-date.• Refer to policies and follow procedures detailed in policies when making decisions.
Documentation	<ul style="list-style-type: none">• Ensure well documented communication to all stakeholders including (as relevant): Investment Committee, executive management, internal teams, advisors, investment managers and members/sponsors/beneficiaries at all times.
Decision Making	<ul style="list-style-type: none">• Maintain well documented explanation/rationale to support any actions, and reasoning for the decisions.• Ensure all decisions and processes for decisions are clearly articulated in order to show what was done at the time and why these were the steps taken, including supporting analysis as relevant.• Ensure delegation models are followed or if amended, that changes to delegation models are formally approved by the Board (or other decision-making body if appropriate).
Engagement	<ul style="list-style-type: none">• Engage with members/sponsors/beneficiaries to provide reassurance that the appropriate steps are being taken to continue to manage the organisation effectively.• Understand relevant impacts from COVID-19 on different cohorts such as member, sponsor and beneficiary circumstances and needs.

GOVERNANCE - FOR INVESTMENT COMMITTEE

For all organisations, sound governance frameworks are paramount. All Board's must ensure the best interests of members/sponsors/beneficiaries are front of mind in their decision making.

Policies	<ul style="list-style-type: none">• Ensure all policies and procedures are followed.
Documentation	<ul style="list-style-type: none">• Maintain well documented explanation/rationale to support any actions, with a clear link to why the action was taken, including supporting analysis as relevant.
Decision Making	<ul style="list-style-type: none">• Ensure ability to say what was done, why it was done, the questions that were asked and the reasons supporting these decisions.• Refer to policies in regard to the process for out of session decisions/circulars (if necessary).• Ensure delegation models are followed.• Liaise with the Board, particularly if unusual circumstances arise and timely decisions are needed for unprecedented matters.

GOVERNANCE - FOR INTERNAL MANAGEMENT WITH ASSET CONSULTANT

For all organisations, sound governance frameworks are paramount. Ensuring the best interests of members/sponsors/beneficiaries are front of mind in decision making.

Decision Making	<ul style="list-style-type: none">• Maintain well documented explanation/rationale to support any actions, with a clear link to why these actions were taken, include supporting analysis as relevant.
Investment Managers (including internally managed strategies)	<ul style="list-style-type: none">• Maintain evidence and documentation of discussions with investment managers (e.g. around valuations, liquidation, positioning etc.)• Understand and document the reasons why investment managers are doing what they are doing.• Check investment managers and investments for signs of impairment/stress and any immediate or expected near term risks e.g. asset specific risks, investment positions, counterparty risks, hedging needs, etc• Communicate with investment managers to understand their internal policies in regard to risk, liquidity, valuations, business continuity etc.
Engagement	<ul style="list-style-type: none">• Liaise with the Investment Committee in regard to decisions made and rationale for decisions, particularly if unusual circumstances arise and timely decisions are needed for unprecedented matters.

LIQUIDITY



LIQUIDITY MANAGEMENT

Liquidity is often the number one priority in times of severe market and economic stress.

Board	<ul style="list-style-type: none">• Consider the organisation's liquidity policy requirements and whether they are being met.• If a regulated entity, consider any additional regulatory requirements.• Ensure appropriate governance processes are in place to sufficiently respond to high market volatility.<ul style="list-style-type: none">• Can circular resolutions be quickly agreed and enacted?• Is there sufficient flexibility in governance arrangements to implement decisions with markets moving quickly (e.g. buying back into equities on valuation grounds)?
Investment Committee	<ul style="list-style-type: none">• Maintain a sufficient buffer allocation to cash to manage uncertainty.• Consider the current and future cash position of the portfolio.• Consider the current sources of liquidity.• Monitor SAA ranges and DAA ranges and identify any potential and/or actual breaches.• Consider potential calls on liquidity (e.g. organisation/benefactor cash demands, liability revaluations, funding requirements etc);• Ongoing monitoring is required as liquidity demands evolve.
Internal Management with Asset Consultant	<ul style="list-style-type: none">• Consider what commitments to unlisted assets could be called in the near-term (Investment managers may bring forward capital calls to support existing investments or provide flexibility).• Consider implications on liquidity from foreign currency exposures/calls.• Consider ways the liquidity of the portfolio could be improved (such as not rolling term deposits, turning off dividend reinvestments, determining ability to redeem and perhaps start redeeming some investments in advance of requirements).

VALUATION



VALUATION - FOR DIRECTORS AND BOARDS

During times of economic disruption and market dislocation, Boards should ensure that the valuation of all assets, including unlisted and illiquid holdings, remains appropriate.

Policies	<ul style="list-style-type: none">• Internal Valuation Policies should be the primary reference point for process and governance arrangements (such as decision making).• If a regulated entity, consider any additional regulatory requirements.
Documentation	<ul style="list-style-type: none">• Ensure the decisions that are made, why they have been made and the data relied upon are all well documented.• Clear documentation of the process followed is critical.
Decision Making	<ul style="list-style-type: none">• Understand the current valuation process and methodology of unlisted investments and have comfort that it is fair and reasonable (the basis/rationale upon which this belief is formed is the most important).

VALUATION - FOR INTERNAL MANAGEMENT WITH ASSET CONSULTANT

During times of economic disruption and market dislocation, the valuation of all assets, including unlisted and illiquid holdings, need to remain appropriate.

Policies	<ul style="list-style-type: none">• Investment manager’s valuation policies should be the primary reference point for their valuation process.• Understand what investment manager valuation policies say about ensuring appropriate revaluations and the process for out of cycle/interim revaluations.
Engagement with Investment Managers (including internally managed strategies)	<ul style="list-style-type: none">• Actively engage with investment managers to ensure that valuations are being updated for impacted assets in the near term.• In discussions with investment managers, focus should be on<ul style="list-style-type: none">• The valuation inputs being used; and• Whether out of cycle valuation adjustments are being made and at an increased frequency (at least for some assets such as airports) in response to the rapidly changing industry dynamics.• Identify if there are investment manager exposures where valuations for impacted assets are not being updated in the near term. Engage with these investment managers to understand the steps they are taking and the reasoning for these steps.• Consider the case for undertaking interim valuation adjustments to ensure asset values reflect the prevailing market environment in a timely manner.
Decision Making	<ul style="list-style-type: none">• Review/document the assessment of whether current valuations are up to date.• Document any adjustment process and clearly articulate and document the decision.• Clearly document the rationale for undertaking decisions (including the inputs used) and the process for decisions and whether the decisions are in line with the Fund’s existing valuation policy.• Ensure the governance process is clear and that the appropriate individuals are involved in all decisions.

IMPORTANT INFORMATION

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