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Dear Concord Friend –

The opaque financial services industry in combination (collusion) with incredible capital markets' complexity is forcing the hands of all institutional investors to step up their games in terms of making good decisions. When managing an institutional investment operation, a proper *Governance* structure provides the foundation for making informed decisions and ultimately increasing the probability of achieving your organization's investment mission.

Winning the investment game requires a process-driven approach to mitigate the factors working against most institutions. Factors such as: asymmetric information, agency risk / cost, poor judgment skills, dysfunctional investment committees and conflicted advisors, all work against us. Winning the game is quite a challenge!

Concord has produced this compendium of articles, all written by thought leaders in finance and related fields, to stimulate dialogue surrounding governance best practices. While some of the articles can be considered esoteric and certainly not easy summer reading, the concepts and issues raised are crucial for all persons responsible for overseeing "other peoples' money", i.e. trustees, board members, and plan sponsor executives.

We look forward to discussing these topics with you in the near future.

Best regards,

Scott Santin
Partner, Co-Founder

Christopher Cahill
Partner, Co-Founder

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ONE

Fixing The Loser's Game; What It Will Take

Keith Ambachtsheer

Director, Rotman International Centre for Pension Management Rotman School of Management, University of Toronto

To read the article please *Click Here*

In 1975 Charles Ellis authored a FAJ article "The Loser's Game" in which he describes managers' inability to beat the market. Many of the issues addressed by Mr. Ellis remain pervasive in today's investment management arena, nearly forty years later! Mr. Keith Ambachtsheer challenges investors to finally take action to fix the problem.

Mr. Ambachtsheer addresses the issue of asymmetric information and why "buyers" of financial services remain at a disadvantage. Not surprisingly, the renowned management consultant, Mr. Peter Drucker, offered potential solutions based on his principles of effective organizations as early as 1976. The offered solutions are straight forward: a clear mission, alignment of interests, advantages of scaling, sound governance and competitive compensation. While these principles are easily understood by all, the question is: *Why do so few organizations put them into practice in regard to their investment operations?*

Some say "the easy money has been made" - maybe current financial conditions will spur institutions to begin to take action.

Ambachtsheer, Keith "Fixing the Loser's Game; What It Will Take" *Financial Analyst Journal* May/June 2013 6-12. Print.

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TWO

The Principal-Agency problem is as old as the times. Once an organization hires an "agent" to act on their behalf an "agency cost" is expected. Much of this "cost" arises from the agent not completely working in the principal's best interest. In most circumstances these costs are obscured, and thus exceedingly difficult to manage. Because of the lack of visibility of agency costs, the potential for an agent to take advantage of a principal is enormous. Within the investment industry, agency costs have been estimated to approach 200-300 basis points (2-3%) a year. This is an intolerable amount.

The following paper addresses the agency issue based on a survey related to the Australian retirement plan model, best known as superannuation funds (a government mandated retirement plan). If time is in short supply, we suggest you focus on pages 1-5 of this paper, where all of the key issues are raised. The issues are critical to all investors, transcending geographic location and type of portfolio.

As noted on Page 4, a survey of 3,300 institutional and retail investors in 88 countries conducted by State Street Research (2012) concluded that only 1/3 of respondents believe their primary investment provider acts in their best interest. Wow, that is a problem!

Principles, Principals and Agents

Ron Bird & Jack Gray
Professors at University of Technology
Sydney, Australia

To read the article please Click Here

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THREE

Mssrs. Michael J. Mauboussin and Dan Callahan, CFA, present an interesting approach to improve the decision making process and, thus, judgment skills. All major financial decisions require a sound framework with which to deal with complexity and the uncertainty of future outcomes. While many investors will make decisions after being seduced by charismatic, self-described gurus, this approach has proven to be dangerous.

Decision making is hard to get right on a consistent basis. While we all can get lucky from time to time, a more systematic approach is desired. Investors who are better able to incorporate relevant information into important decisions exponentially increase their odds for success.

Cultivating Your Judgment Skills

Michael J. Mauboussin

Managing Director & Head of Global Financial Strategies, Credit Suisse

Dan Callahan, CFA

Research Associate, Global Financial Strategies, Credit Suisse

To read the article please Click Here

FOUR

How Does Your Investment Committee Stack Up?

Catherine Gordon
Vanguard Investment Group

The governance structure of many institutional investment committees is counterproductive when viewed through the lens of making forward-looking investment decisions. Based on Vanguard's survey, it seems far too much time continues to be focused on backward looking data, as well as on areas outside of the control of the investment committee.

The takeaway is to spend the most time on issues that the committee can control and that will have the greatest impact on potential portfolio outcomes.

We invite you to assess your committee's behavior:

http://tinyurl.com/quiz-Vanguard

How does your investment committee stack up?

Despite the best efforts of investment committees, internal group dynamics can sometimes lead to questionable choices that hamper their fiduciary responsibility of ensuring that their organizations meet their financial obligations, according to a Vanguard survey.

Findings from the survey, conducted by Vanguard Investment Counseling & Research, show that complicating matters further is the relative inexperience of many committee members. The survey of more than 110 committee members across entities—nonprofit organizations as well as defined benefit (DB) and defined contribution (DC) plans—about half of all respondents had committee tenure of five years or less.

Whether you're a new or veteran committee member, you may wonder how your group compares with others in making investment decisions. The survey indicates that committees do many things right, but they also fall into some behavioral patterns that can prove counterproductive.

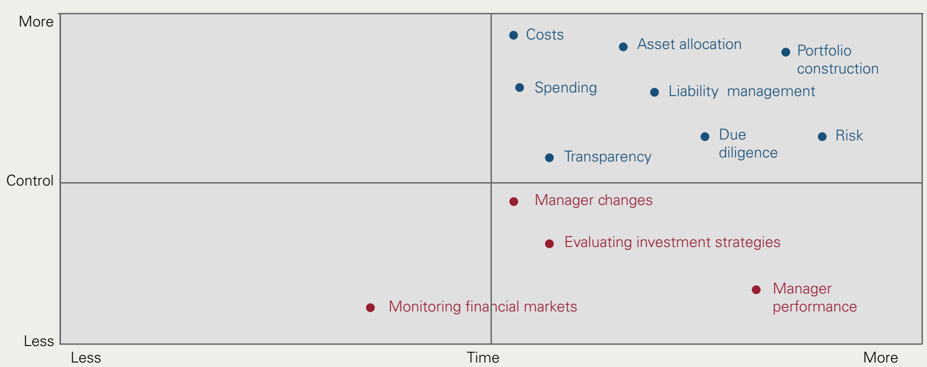
Make better use of your time

On average, committees spend more time reviewing past investment performance than on deciding strategy, manager selection, or noninvestment issues. Committees for DC plans in particular spent almost 51% of their time on past performance—more than all other issues combined.

"Considering that market performance is an area totally out of one's control, this is not the best use of a committee's time," said Catherine Gordon, principal and head of Vanguard Investment Counseling & Research. "They should be spending more time on areas that they do have control over. For example, you can partly control risk through asset allocation decisions. And you have total control over costs through your choice of investments."

Spend more time on issues you control

Too much time spent on areas out of your control...and what you should be spending more time on.



Source: Vanguard.
Time spent is based on Vanguard's collective experience, not on survey results.

(continued on next page)

Catherine Gordon

Committee behavior

About half of our survey respondents acknowledged that their committees tend to seek information that confirms their preconceptions.

"Confirmation bias can be a real concern for committees, especially if committee members come prepared with opinions and not facts. Decisions can be made solely on how persuasive the member was," Ms. Gordon said. "With about half of our survey respondents indicating that their committees engage in confirmation bias, there is clearly an opportunity to improve decisions by addressing this troublesome bias."

In other ways, the survey respondents seemed to be following some of the best practices outlined in the white paper:

- Virtually all respondents felt their committees engaged in healthy debate before making decisions.
- More than 90% felt they were free to question group decisions without fear of criticism.
- An even greater number felt they used the expertise of all committee members.
- The majority used an outside consultant, which the paper recommends as one method of bringing diversity of thought, as an outside expert can act as a devil's advocate.

Furthermore, 52% of respondents said their committees had between six and ten members—the ideal range.

"With fewer than five or six members, committees may lack the diversity of thought needed to reach unbiased decisions," Ms. Gordon said. "With more than ten, committees could become unwieldy and inefficient."

Vanguard®

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For more information about Vanguard funds, visit institutional.vanguard.com or call 800-523-1036 to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

All investments, including a portfolio's current and future holdings are subject to risks, which may result in the possible loss of the money you invest.

Past performance is not a guarantee of future results.

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APPENDIX

Selecting and Monitoring Pension Consultants – Tips for Plan Fiduciaries

US Department of Labor

To read the article please Click Here

http://www.dol.gov/ebsa/newsroom/fs053105.html