

## Scale creates new investment governance challenges

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All investment organisations and particularly superannuation funds need to strengthen their investment governance frameworks as their assets grow, to manage the associated risks and ensure they realise the targeted benefits of scale.

"Investment scale correlates with organisational and portfolio complexity," Frontier Head of Investment Governance, Brett Lazarides, said.

"This complexity is multi-dimensional and represents an ongoing governance challenge for boards, directors, fiduciaries and investment management."

For example, funds may increasingly invest offshore or in private markets and derivatives. While these opportunities offer the potential to strengthen the portfolio, they also place more demands on human resources and governance frameworks.

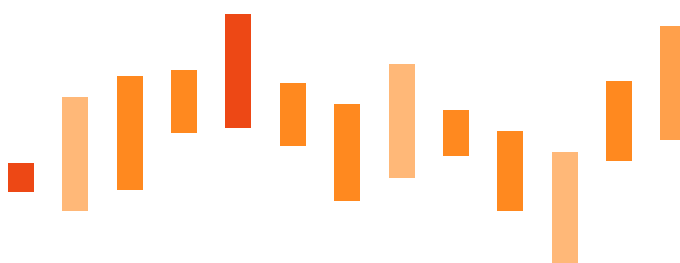
The governance challenge is to be well positioned for that changing risk profile as the organisation grows.

KPMG Australia Director, Actuarial & Financial Risk, Platon Chris, said the shift happens when a fund realises what has worked in the past won't work over the next five years.

"You can't just think about the next 12 to 18 months. If you're looking to double in size over the next four to five years, there are going to be implications around capacity constraints in terms of allocation of capital: you might need to change a strategy; you might need to consider internalisation."

Internalisation is an increasingly popular strategy to bolster control and lower costs, but KPMG Australia National Sector Leader, Asset & Wealth Management, Linda Elkins, said it was early days.

"In the short term we have seen evidence of cost savings as people have internalised, but I'm not sure if we've yet seen the full weight of investment that will need to be made year-on-year to support the activities that have been built."



"Scale-related risks often precede scale benefits and, in fact, are heightened as scale increases." Lazarides said. The 'growth dividend' can quickly evaporate or not be achieved at all without commensurate risk management.

"To capture scale benefits and mitigate associated risks requires deliberate planning, clear fit-for-purpose frameworks and objectives and an evolutionary approach to the upgrade of capabilities, portfolio structure and governance strategies that optimize total portfolio outcomes."

Frontier Investment Strategy Advisor, Mary McLaughlin, encouraged funds to maintain the culture that underpinned their connection with members to guide their investment decision making. A healthy questioning approach should also form part of culture.

"Hubris is the biggest challenge everybody in investment management faces, because self-belief can move from healthy to unhealthy very quickly."

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