



# QUESTIONS

## TO ASK YOUR INVESTMENT MANAGERS

Pension fund trustees regularly review a variety of investment options and have to choose between them. Here are some questions that trustees recommend asking, in order to sort out the good options from the hype, and to dig into claims about how a fund is managed.

■ Tell me in layman's terms, step by step, how you do what you do? Where do your investment returns come from?

■ What sorts of risks do you identify? How do you measure and manage them? What systems do you have in place to look for different kinds of risk – unlikely events, unexpected correlations, and so on? What happens when things go wrong? Who gets fired or voted out of office if this blows up?

■ You have all of the information about the investment product. How do we know that we are getting full disclosure about any unnamed risks and obstacles? What internal transparency measures do you have in place?

■ How does this investment match our investment beliefs and strategies? How does it complement our portfolio?

■ What measures, other than relative performance, should we use to evaluate your past performance? Your performance going forward? What benchmarks are you using and what are the drawbacks of those benchmarks?

■ How do your investments affect society? Do they cause collateral damage, externalize costs? Do they create benefits? How does your investment strategy take the social and environmental impacts of your investments into account?

■ How do you make your money? How is the firm compensated, and how are the people who work there compensated? How are your interests aligned with ours when things go well, and when they don't? Have you agreed to lower fees than what you are asking us to pay?

■ What trouble have you gotten into (regulatory settlements, litigation)? Does your firm belong to trade associations? If so, how much does the firm pay annually and how are these payments justified?

■ How has the crisis changed how you think about investments? What actions have you taken to contribute to financial market stability? How have you handled debates over financial market regulation? How much money do you spend on lobbying?

Drawn from roundtable discussion among labor-affiliated trustees and related stakeholders at the May 30-1 meeting of the Trustee Leadership Forum for Retirement Security, a project of the Initiative for Responsible Investment at Harvard University. For more on this project see [www.hausercenter.org/iri/about/tlf](http://www.hausercenter.org/iri/about/tlf)



# RED FLAGS

## WHAT MANAGERS SAY THAT SHOULD SET OFF WARNING BELLS

Not all investment managers will say anything to get a cut from the pension fund checkbook, but some will. Here are some things that trustees warn could be signs of hype or deception.

*When you make money, we make money.*

■ **Ask for specifics!**

■ **Look carefully at the obligations managers have to their investors, the relationship is not always straightforward.**

*We are fiduciaries, too.*

*This is very complex stuff.*

■ **If they can't talk about risks, they may be hiding or missing them.**

■ **If you can't understand how it works, you probably shouldn't invest in it.**

*It's all upside, we have the risk covered. It's a no-brainer.*

*Our proprietary trading strategy is the key to our success. But we can't explain it to you, it's a trade secret.*

■ **If you can't see how it works, you may not want to invest in it.**

*You have to pay for talent.*

■ **Salaries in finance have gone way up, but returns haven't! There's reason to be skeptical that higher fees guarantee better returns.**

*Our fund is closed to new investors, except for you. But you must commit right now.*

■ **Being rushed may be a sign you need to slow down.**

■ **Benchmarks can be fixed – look carefully at how relative performance is measured.**

*We're in the top quartile. We beat the benchmark.*

*You are my friend. I enjoy your company on the golf course/at dinner.*

■ **Investment decisions should not be based on personal relationships.**

■ **Alignment of interest needs to be built into the investment process itself.**

*My dear old father/mother/etc. was a union member.*