GLOBAL PENSION TRANSPARENCY BENCHMARKING:

POSITIVE EVIDENCE THAT WHAT GETS MEASURED REALLY DOES GET MANAGED

"We've all heard the quote "what gets measured gets managed". While top search results attribute it to management guru Peter Drucker, there is no evidence he ever said it."

Alex Morrow

"If you can't measure it, you can't change it."

Peter Drucker

"What gets measured gets improved."

Peter Drucker

The Purpose of this *Letter*

There is controversy about whether Peter Drucker ever uttered the famous words "*What gets measured gets managed*". However, there is agreement that he did say "*If you can't measure it, you can't change it*", and "*What gets measured gets improved.*" These two Druckerisms are close enough to frame the purpose in this *Letter*.

That purpose is to support the proposition that well-designed benchmarking protocols do indeed motivate actions that measurably improve outcomes. The specific context is the *Global Pension Transparency Benchmark* (*GPTB*) initiative launched by *CEM Benchmarking* and *TOP1000FUNDS* in 2021. Here is a brief description of it:

- The *GPTB* is a global disclosure standard for pension organizations. It ranks the 5 largest pension organizations in 15 countries on the quality of their public disclosure of key value-generating elements. So that makes a 75 pension organization data base altogether.

- Four key *GPTB* quality criteria are: 1. completeness, 2. clarity, 3. information value, and 4. comparability.

- Four key factors are evaluated: 1. governance and organization, 2. performance, 3. costs, and 4. responsible investing.

- Quantitative dimensions of the survey: it poses 156 questions and 11,700 data points are analyzed.

The two *GPTB* sponsors note that transparency and accountability go hand-in-hand. Properly managed, greater transparency improves decision-making, stakeholder relations, and hence, organizational outcomes. Or as Peter Drucker would say: "*what gets measured gets improved*".

The Four Factors: A Closer Look

Given their central role in the transparency benchmarking process, how the four factors are being benchmarked is worth a closer look.

- *Governance and Organization*: the assessment of governance and organizational disclosures includes 35 questions organized across 4 components: 1. Governance structure and mission, 2. Board competencies and qualifications, 3. HR and organization, 4. Organization strategy.

- *Performance*: performance scores are based on up to 44 questions across 7 criteria: 1. Total fund (or investment option) returns and value-added, 2. Clarity and quality of return and benchmark disclosures, 3. Asset mix and portfolio composition disclosures, 4. Explanation of risk management policies and specific risk disclosures, 5. Explanation of key results and outlook, 6. Member service goals, plans, and service level reporting, 7. Funded status disclosure and discussion of assumptions and risks.

- *Costs*: 4 cost elements were examined, with 29 questions analysed: 1. Total fund disclosures, 2. Asset class/option level disclosures, 3. External management fee disclosures, 4. Member service cost disclosures.

- *Responsible Investing*: assessment of responsible investment disclosures includes 48 questions across 3 key components: 1. Responsible investing framework and reporting, 2. Responsible investing governance, 3. Responsible investing implementation.

Since its learning launch in 2021, the *GPTB* process was revised and repeated in 2022, 2023, and 2024. What can we learn from an assessment of this 3-year results history? That is the question addressed next.

Key *GPTB* Findings on the 75 Fund Universe

Not surprisingly, the *GPTB* initiative described above generates a lot of numbers. Below is a subset of these numbers using the total 75 Fund *GPTB* Universe. To foster comparability, all results are converted to a 0-100 scoring system:

- Total *GPTB* scores across the 75 funds in 2022 -> 2023 -> 2024 averaged: 55 -> 60 -> 63
- *Governance* factor scores in 2022 -> 2023 -> 2024 averaged: 64 -> 71 -> 74
- *Performance* factor scores in 2022 -> 2023 -> 2024 averaged 62 -> 64 -> 63
- *Cost* factor scores in 2022 -> 2023 -> 2024 averaged 48 -> 51 -> 49
- *Responsible Investing* factor scores in 2022 -> 2023 -> 2024 averaged 49 -> 59 -> 67

Notably, the Total Universe *GPTB* score rose in 2023 and once again in 2024. The main drivers of the increases were improved disclosures in the *Governance* and *Responsible Investment* areas. These findings confirm Peter Drucker's dictum that "*what gets measured gets improved*" is indeed on the mark.

Which Countries Scored Highest and Improved the Most?

Further insights result from studying the benchmarking results at the individual country level. Did some countries improve more than others? The order in which they appear below is based on their 2024 Total *GPTB* country score (i.e., the average score of the five funds assessed). The improvement metric is based on the Total *GPTB* country score increase from 2022 to 2024:

- *Canada*: 2022 -> 2023 -> 2024 scores averaged 75 -> 83 -> 91 Improvement increase +16
- *Australia*: 2022 -> 2023 -> 2024 scores averaged 64 -> 74 -> 82 Improvement increase: +18

- *Netherlands*: 2022 -> 2023 -> 2024 scores averaged 69 -> 75 -> 81 Improvement increase +12
- *Sweden*: 2022 -> 2023 -> 2024 scores averaged 68 -> 72 -> 77 Improvement increase +9
- *USA*: 2022 -> 2023 -> 2024 scores averaged 54 -> 62 -> 69 Improvement increase +15
- *Norway*: 2022 -> 2023 -> 2024 scores averaged 55 -> 59 -> 66 Improvement increase +11
- *Finland*: 2022 -> 2023 -> 2024 scores averaged 55 -> 59 -> 64 Improvement increase +9
- *United Kingdom*: 2022 -> 2023 -> 2024 scores averaged 59 -> 64 -> 61 Improvement increase +2
- *South Africa*: 2022 -> 2023 -> 2024 scores averaged 56 -> 55 -> 55 Improvement increase -1
- *Switzerland*: 2022 -> 2023 -> 2024 scores averaged 53 -> 58 -> 54 Improvement increase +1
- *Brazil*: 2022 -> 2023 -> 2024 scores averaged 40 -> 48 -> 50 Improvement increase +10
- *Japan*: 2022 -> 2023 -> 2024 scores averaged 39 -> 46 -> 48 Improvement increase +9
- *Chile*: 2022 -> 2023 -> 2024 scores averaged 45 -> 47 -> 47 Improvement increase +2
- *Mexico*: 2022 -> 2023 -> 2024 scores averaged 26 -> 30 -> 35 Improvement increase +9

These results are notable in three important ways:

1. Out of the 15 countries studied, the funds in 14 countries improved their transparency performance over the 3-year period.

2. The countries with the highest transparency scores in 2022 made the greatest transparency improvements over the 3-year period. For example, the top 5 transparency countries in 2022 improved their scores by an average 14 points to 2024. In contrast, the bottom 5 transparency countries in 2022 improved their scores by a materially lower average 6 points to 2024. As a result, country-based transparency gaps widened over the 2022-2024 period.

3. More detailed analysis found that the *GPTB* process is leading to greater mission clarity at the individual pension fund level and to renewed efforts to improve best disclosure/ communications practices. Raising your organization's *GPTB* scores is turning out to be a great improvement motivator!

We end this *Letter* with a brief description of the birth and rise of the organization that produced the *GPTB* insights set out above.

The Birth and Rise of *CEM Benchmarking*

The design and implementation of the Drucker-inspired *Canadian Pension Model* in the early 1990s was the impetus for also creating a 'value-for-money' benchmarking protocol. Once again, it was inspired by a Peter Drucker dictum: "*What gets measured gets improved*". After some experimentation with a willing group of pension organizations, *CEM Benchmarking* was founded in Toronto in 1992 by Keith Ambachtsheer, Virginia Atkin, and John McLaughlin. Its head office for the first 2 years was the attic of the Ambachtsheer-Atkin residence.

Today, *CEM* benchmarks the organizational performance of 525 pension funds spread across 25 countries with aggregate assets amounting to $15 trillion. With a head count of 48 people, not only has *CEM* has moved to a much larger Toronto head office, but also has an office in the UK. It describes its services as benchmarking the investment function, the administration of DB and DC plans, and organizational transparency. To that end, it has created multiple unique data bases and used those databases to generate important pension industry insights. Here is a selection of six such studies:

1. "*Responsible Investing: The Cost and Performance Differences between PRI Signatories and Non-Signatories*"

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2. *"A Case for Scale: How the World's Largest Institutional Investors Leverage Scale to Deliver Outperformance"*

3. *"What is the Value of the Australian 'Ýour Future, Your Super' Test?"*

4. *"Green Urban Development: An Impact Investment Strategy of Canadian Pension Funds"*

5. *"Asset Allocation and Fund Performance of DB Pension Funds in the USA 1998-2020"*

6. *"Has the Lack of Asset Diversification in DC Plans Been a Costly Missed Opportunity?"*

Visit the **CEM Benchmarking website** for a longer list of studies it has performed using its unique set of databases, some of which have data going back over 20 years.

In Conclusion

The purpose of this *Letter* was to show that well-designed benchmarking protocols using well-constructed databases do indeed motivate actions to improve outcomes. What should be true in theory turns out to be true in practice as well. The specific study context in this *Letter* was the transparency performance of 75 pension organizations from 15 countries. Reasonably, what was the case in the transparency performance study is the case in the investing and benefit administration performance contexts as well.[i] Where does your organization's performance rank in these two contexts? Should you not know?

Keith Ambachtsheer

Endnotes:
i.   *I continue to be a shareholder and Board member of the CEM Benchmarking organization.*