

**A Conference of Institutional Investors,
Practitioners, Professionals and Academics**

**INSTITUTIONAL INVESTORS, RISK / RETURN
AND CORPORATE GOVERNANCE FAILURES:**

**PRACTICAL LESSONS FROM THE
GLOBAL FINANCIAL CRISIS**

October 5 - 7, 2009

Venue

Saint Mary's College of California
(San Francisco Bay Area)

Conveners:

The Elfenworks Center for the Study of Fiduciary Capitalism

Saint Mary's College of California

The Principles for Responsible Investment

Millstein Center for Corporate Governance and Performance

Yale University

Research Support:

IRRC Institute



Sponsor:
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BACKGROUND:

The current financial crisis has, as part of its origins, a variety of corporate governance failures. Most obvious are misaligned compensation arrangements which incentivized extreme risk (while not punishing failure). Less examined is the role of large, supposedly sophisticated institutional investors (universal owners) in this crisis. Their role is likely one of unconscious commission as well as of omission. Commission includes, for example, both direct and indirect exposure to extremely complex financial instruments (e.g. credit default swaps) through investments in hedge and private equity funds, as well as more traditional equity investments in large financial institution. In particular, the pursuit of alpha often coupled with leverage to magnify returns may have led institutional investors to pursue investment strategies that proved to be particularly risky, and significantly contributed to the growth of these risky markets. Omission includes, for example, neither having nor considered having a risk monitoring system in place to monitor such investments based on what are now relatively well established corporate governance principles and best practices.

OBJECTIVE:

To investigate the role of corporate governance failures, gaps, oversights and missed opportunities leading up to and in the current global financial crisis; and to consider and develop proposals to mitigate these failures in the future. The conference especially seeks as participants, top level executive and senior staff representation from both the governance and investment sides of institutional owners in order to examine retrospectively what lessons can be learned and prospectively what forms these lessons might take going forward.

TOPICS:

Corporate Governance How did corporate governance failures (oversights, failure of risk analysis, etc) contribute to the current global financial crisis?

“Great Expectations: Institutional Investors, Executive Remuneration and ‘Say On Pay’” by Kym Sheehan, Senior Lecture in Business Law in the Faculty of Economics and Business, The University of Sydney, Australia

Financial Institutions What lessons can be learned by comparing the governance structures of financial institutions that were deeply affected by the crisis (i.e. Citigroup and AIG) and others that were less affected?

“Against Stupidity, the Gods Themselves Contend in Vain” by Bruce Dravis, Corporate and securities law attorney and former co-chair of the California Corporations Committee

Systemic Risk Can and should institutional investors effectively identify and monitor for systemic risk?

“Beyond Risk: Responsible Alternatives for Portfolio Construction” by Steven Lydenberg, Chief Investment Officer, Domini Social Investments

The Search for Alpha What role did the search for alpha play in the crisis and what role did institutional investors play in the pursuit of alpha? Was there/is there confusion about what alpha is?

“Chasing Alpha: an Ideological Explanation of the Catastrophic Governance Failure in the UK’s Financial Services Industry” by Philip Augar, author of *Chasing Alpha: how reckless growth and unchecked ambition ruined the City’s golden decade* (Random House 2009)

Alternative Investments What role did the expansion of real estate, infra-structure and commodity investment by large institutional owners play in the crisis?

“Real Estate Performance, Governance and the Crisis” by Piet Eichholtz , Nils Kok (lead author) and Erkan Yonder. The lead author is an assistant professor in Finance and Real Estate at Maastricht University, the Netherlands.

The Role of Gate Keepers What was the role of accounting, financial reporting, rating agencies, consultants and regulation in the global financial crisis and what should be the role of universal owners in relation to these gate-keeping functions?

“Investor Owned and Controlled Rating Agencies: A Summary Introduction” by Joseph Grundfest and Evgenia Petrovaand, Stanford Law School and The Rock Center on Corporate Governance

“Enablers of Exuberance” by Jennifer Taub, Lecturer and Coordinator of Business Law Program within the Isenberg School of Management at the University of Massachusetts, Amherst.

Responsible Investment Do the perspectives of the movement for ‘responsible investment’ with its emphasis on corporate governance have roles to play in mitigating and minimizing the next crisis or in assisting the recovery from this one?

“Fiduciary Duty: A Smokescreen for Pension Fund Inaction on Climate Change Risk” by Clair Woods, Doctorial Candidate, University of Oxford, Oxford, England.

“The Role of Asset Consulting in Transforming Investment Decision-Making: The Integration of Responsible Investment Analysis into Corporate Valuation and the Institutional Barriers Involved” by Eric R. W. Knight, Candidate for Doctorate in Economic Geography, University of Oxford, Oxford, England.

FORMAT:

Between 40 and 60 leading theorists and practitioners in the field of corporate governance, finance/economics, financial markets and responsible investment will be invited to a two-day conference at Saint Mary’s College of California. Short presentations and paper summaries, some with a discussant, will structure discussions among all the participants. As with the two prior very successful conferences the Elfenworks center has organized using this format, an emphasis will be on cross discussion among all participants under the Chatham House Rule.

If you are interested in attending this conference, send an email to fidcap@stmarys-ca.edu
Additional information is available at www.fidcap.org.

