



INTEGRATING ETHICS INTO GOVERNANCE & OVERSIGHT MANAGER MONITORING

ADVANCED TRUSTEE LEADERSHIP AND FIDUCIARY EXCELLENCE PROGRAMME

DATE: 26th – 30th January 2026

VENUE: Pride Inn Paradise, Mombasa

GOVERNANCE . TRAINING . EMPLOYEE BENEFITS . TECHNOLOGY

EXPECTED OUTCOMES

By the end of this session, you will be able to:

- ❖ Distinguish between compliance and ethical governance
- ❖ Apply ethical frameworks to board decision-making
- ❖ Integrate ethics into manager selection and monitoring
- ❖ Identify and navigate ethical dilemmas in pension governance
- ❖ Build an ethical culture within your trustee board

WHY ETHICS MATTERS

❖ **Trust Deficit**

❖ **Complexity**

❖ **Inter-generational Impact**

❖ **Regulatory Context**

❖ **Reputational Risk**

Compliance Based	Ethics Based
Rule following	Principle driven
Minimum standards	Aspirational standards
“what must we do”	“what should we do”
Reactive	Proactive
Legal risks focus	Reputational & moral risk focus
Box-tick mentality	Value driven culture

THE FOUR PILLARS OF FIDUCIARY ETHICS

1. Loyalty
2. Prudence
3. Fairness
4. Transparency

When facing any governance decision:

1. IDENTIFY
2. STAKEHOLDERS
3. PRINCIPLES
4. ALTERNATIVE
5. TEST
6. DECIDE
7. REVIEW

Scenario:

A Trustee's family member owns a Start-Up offering digital financial solutions for Pension Schemes. The Start-Up bids for the opportunity to provide the service to your Pension Scheme. Their proposal appears to be attractive. The trustee has disclosed the relationship.

Discuss:

Is disclosure sufficient?

What ethical issues arise?

How should the board proceed?

Ethical Due Diligence Framework

Beyond Performance Metrics:

- Governance structure of the manager
- Track record on conflicts of interest
- Fee transparency and reasonableness
- ESG integration policies
- Client treatment history
- Regulatory sanctions or investigations
- Cultural alignment with your scheme's values

ETHICAL INVESTMENT MANAGER SCORECARD



Evaluate potential managers on:

Integrity	30%	Regulatory history, transparency, culture
Alignment	25%	Fee structures, incentives aligned with performance
Stewardship	20%	How they engage with investee companies
ESG Integration	15%	Environmental, social, governance factors
Member Communication	10%	Accessibility, clarity, education

Minimum Ethical Threshold: 70%

ONGOING MANAGER MONITORING – ETHICAL LENS

Quarterly Ethical Health Checks:

- ❖ Review all fee deductions for reasonableness
- ❖ Analyze voting records on invested company matters
- ❖ Assess manager's handling of conflicts of interest
- ❖ Monitor any regulatory developments or investigations
- ❖ Evaluate member complaint trends
- ❖ Review manager's ESG reporting

Annual Deep Dive:

- ❖ Culture and leadership changes
- ❖ Comparison with peer manager ethics standards
- ❖ Stakeholder feedback (if available)

RECOGNIZING ETHICAL REDFLAGS

Warning Signs in Manager Relationships:

- ⚠️☐ Reluctance to provide detailed fee breakdowns
- ⚠️☐ Excessive entertainment or gifts to trustees
- ⚠️☐ Pressure for quick decisions without due diligence
- ⚠️☐ Lack of transparency in investment decision-making
- ⚠️☐ Frequent changes in key personnel
- ⚠️☐ Inconsistency between marketing materials and actual practices
- ⚠️☐ Defensive or hostile responses to legitimate questions
- ⚠️☐ Regulatory investigations or sanctions

Scenario:

Your top-performing fund manager (15% annual returns) is discovered to have invested heavily in a company facing serious corruption allegations. The investment represents 8% of your scheme's assets. Returns from this holding have been excellent.

Questions:

1. Do you demand divestment?
2. How do you balance fiduciary duty to maximize returns vs. ethical concerns?
3. What message does your decision send?

CONFLICTS OF INTEREST – BEYOND DISCLOSURE

Three-Level Approach:

Level 1: AVOID

Don't create unnecessary conflicts

Careful trustee selection

Clear policies on outside interests

Level 2: DISCLOSE

Comprehensive conflict register

Updated quarterly

Accessible to members

Level 3: MANAGE

Recusal from discussions and votes

Independent oversight

Documentation of process

ETHICAL GOVERNANCE OF FEES AND EXPENSES

Transparency Principles:

- ❖ **All-in Costs** - Capture every direct and indirect fee
- ❖ **Benchmark** - Compare against industry standards
- ❖ **Justify** - Can you defend every fee to members?
- ❖ **Negotiate** - Exercise your fiduciary duty to minimize costs
- ❖ **Disclose** - Annual clear statement to members

Question to Ask: *"If members knew exactly what we pay for this service, would they agree it's reasonable?"*

Why ESG Matters to Pension Trustees:

Environmental: Climate risk affects long-term asset values

Social: Labor practices, community impact, diversity

Governance: Board quality, shareholder rights, corruption

ESG is NOT:

- Political activism
- Sacrificing returns for values

ESG IS:

- Comprehensive risk management
- Long-term value protection
- Alignment with member interests

REFLECTION - POLITICAL PRESSURE

Scenario:

A government official suggests your public pension scheme invest in a state-backed infrastructure project. The business case is marginal, but there are hints that regulatory approvals for other matters may depend on cooperation.

Ethical Challenges:

Loyalty to members vs. political reality

Long-term sustainability vs. short-term pressure

Independence of the board

How do you respond?

ETHICAL COMMUNICATION WITH MEMBERS

Transparency Principles:

- ✓ **Plain Language** - No jargon or obfuscation
- ✓ **Timeliness** - Communicate before rumors spread
- ✓ **Completeness** - Good news and bad news
- ✓ **Accessibility** - Multiple channels, including local languages
- ✓ **Honesty** - Admit mistakes, explain corrective action
- ✓ **Responsiveness** - Mechanisms for member queries

Key Responsibilities:

- ❖ Maintain comprehensive conflict of interest register
- ❖ Ensure ethics policies are current and enforced
- ❖ Facilitate ethical training for trustees
- ❖ Monitor compliance with board decisions on ethical matters
- ❖ Provide independent advice on ethical dilemmas
- ❖ Document ethical discussions and decisions
- ❖ Liaise with regulators on governance matters

MEASURING ETHICAL PERFORMANCE

Ethical Governance KPIs:

- ❖ Conflicts of interest declared and managed
- ❖ Manager selection processes documented and transparent
- ❖ Member complaints resolved within timelines
- ❖ Fee benchmarking completed annually
- ❖ Ethics training attendance (target: 100%)
- ❖ Whistleblower reports investigated
- ❖ Regulatory compliance rate
- ❖ Member satisfaction surveys

Annual Ethics Audit Recommended

WHEN ETHICS AND LAW CONFLICT

Navigating Gray Areas:

Legal but Unethical: Permissible under rules but violates principles

Example: Maximum fee extraction during poor performance

Ethical but Legally Risky: Right thing may have legal uncertainty

Example: Whistleblowing on powerful stakeholder

Guidance:

- ❖ Seek legal counsel AND ethics counsel
- ❖ Document reasoning thoroughly
- ❖ Consider long-term reputational impact
- ❖ Consult regulator when appropriate
- ❖ Remember: Court of public opinion matters

PRACTICAL ETHICS TOOLKIT FOR YOUR BOARD

Implement These Immediately:

- ❖ **Ethics Charter** - Board-approved, member-accessible
- ❖ **Monthly Conflict Declaration** - Standing agenda item
- ❖ **Manager Ethics Review** - Annual assessment
- ❖ **Member Ethics Forum** - Annual open session
- ❖ **Whistleblower Hotline** - Independent, confidential
- ❖ **Ethics Champion** - Designated trustee role
- ❖ **Case Study Library** - Document and learn from ethical decisions

EXAMPLE OF A GIFT REGISTER

STAFF NAME & DATE	DESCRIPTION OF GIFT	PERSON/ORGANIZATION OFFERING GIFT/HOSPITALITY	ESTIMATED VALUE OF GIFT OR HOSPITALITY (KSH)	REASON FOR ACCEPTANCE
Celina Dior 16/2/2025	Silk Scarf	C-Kay Ventures (Billboard Vendor)	Ksh.1,500/-	Declining might cause cultural offence

RED FLAGS IN YOUR OWN BOARD

Signs Your Board May Have Ethical Drift:

- ⚠️ Decisions made outside formal meetings
- ⚠️ Reluctance to document dissenting views
- ⚠️ Decreasing member engagement
- ⚠️ Trustee attendance declining
- ⚠️ Increasing complexity in fee structures
- ⚠️ Defensive responses to member questions
- ⚠️ Long-serving trustees with no succession planning
- ⚠️ Informal "inner circle" decision-making

THE PERSONAL ETHICS COMMITMENT

Personal Trustee Pledge:

As a trustee, I commit to:

- ❖ *Place member interests above all else*
- ❖ *Declare conflicts promptly and fully*
- ❖ *Ask difficult questions, even when uncomfortable*
- ❖ *Speak up when I see ethical concerns*
- ❖ *Continuously educate myself on governance best practices*
- ❖ *Model ethical behavior in all board interactions*
- ❖ *Accept Accountability for my decisions*
- ❖ *Leave the scheme better than I found it*

REGIONAL REGULATORY EXPECTATIONS

- ❖ Increasing emphasis on governance frameworks
- ❖ Enhanced disclosure requirements
- ❖ Fit and proper criteria for trustees
- ❖ Risk management frameworks
- ❖ Member protection focus
- ❖ ESG reporting emerging

Trend: Compliance + Ethics = Good Governance

KEY TAKE-AWAYS

Remember:

- ❖ **Ethics ≠ Compliance** - Go beyond minimum legal requirements
- ❖ **Manager Selection & Monitoring** - Integrate ethical due diligence
- ❖ **Conflicts Management** - Avoid, disclose, manage rigorously
- ❖ **Transparency** - Members deserve honest, accessible communication
- ❖ **Culture** - Ethical governance starts with individual commitment
- ❖ **Accountability** - Measure, monitor, improve continuously

Your ethical legacy matters more than any single investment return

REVISITING THE EXPECTED OUTCOMES

How confident are you that you can:

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The time is always right to do what is right."

- Dr. Martin Luther King Jr.



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