



INDEPENDENT FIDUCIARY SERVICES, INC.

From Theory to Practice: Actually Governing Your Investment Program

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Capital Matters

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Your Board's Objective: Effectively Structure & Oversee the Investment Program

Seek to identify and address:

- Aspects of the fund's operations, organization or investment portfolio that
 - pose undue **risk**
 - pose undue **expense** or inefficiency
 - impair achieving the desired net, long-term rate of **return**
- How the fund's organization and procedures compare to peers and industry "**best practices**"
- Ways to enhance **trust** and confidence



Your Board's Objective: Effectively Structure & Oversee the Investment Program

- Hurdles to Surmount:
 - limited time
 - varying degrees of expertise
 - resource constraints
 - possible misalignment of interest



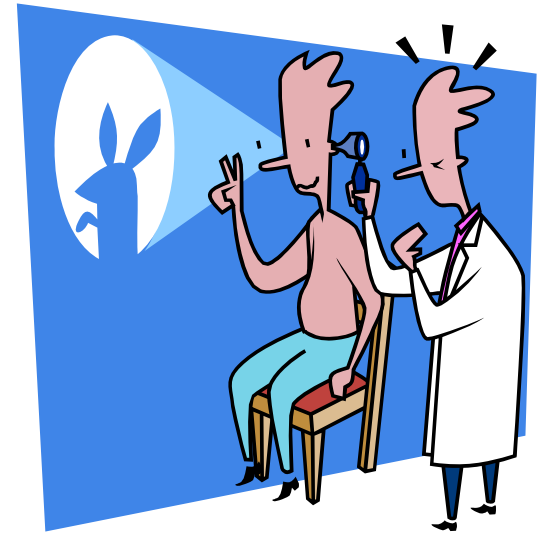
*Your Board's Objective:
Effectively Structure & Oversee
the Investment Program*

- What subject to evaluate?
- How to evaluate them?
- What processes and policies to install to achieve your objective?

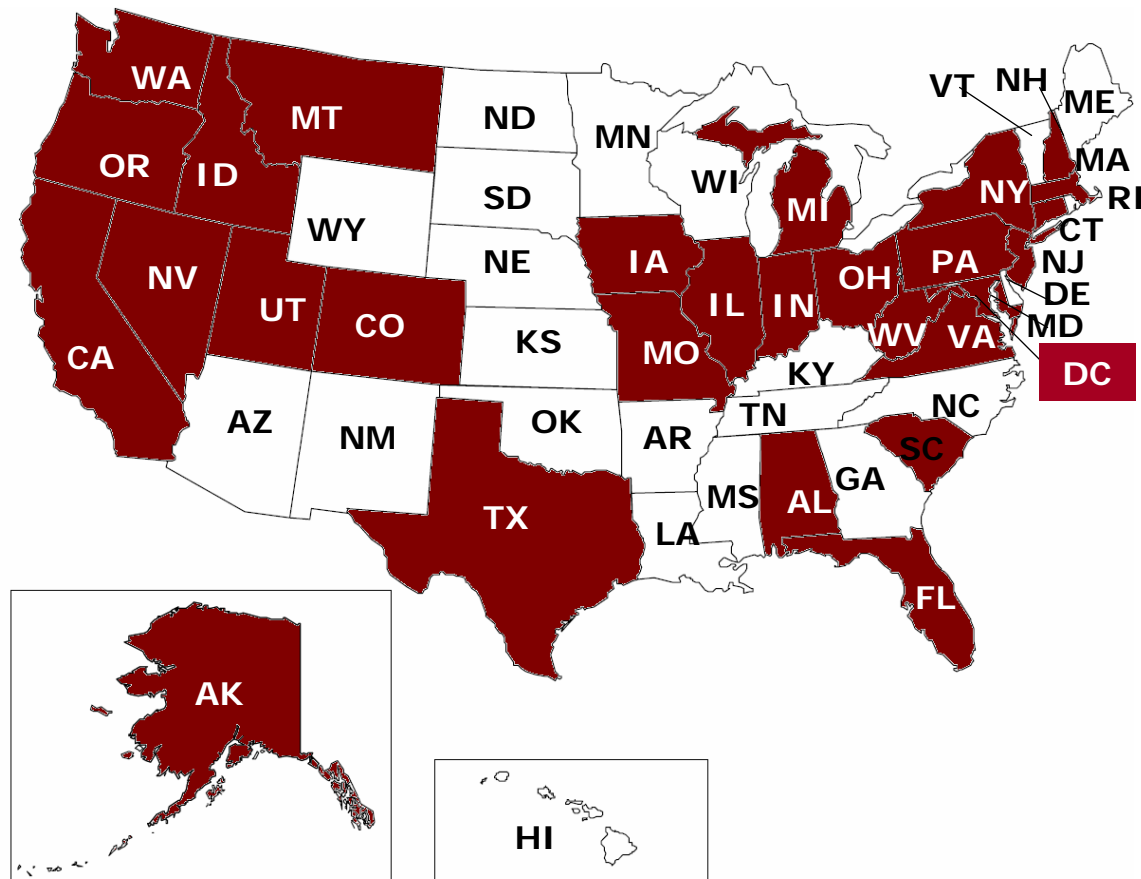


What Is a Fiduciary Audit/Operational Review?

- A CATSCAN of your fund's investment program and administration
- Compared to best practices



I. Operational Reviews Have Become a Common Practice



Organizational Structure & Resources

- **Organizational Structure & Resources**

- Governance
- Legal Matters
- Fiduciary Liability Insurance
- Personnel Practices
- Investment Policy
- Asset Allocation
- Retainer Consultant's Responsibilities
- Investment Management Structure
- Investment Performance
- Investment Performance Reporting
- Performance Benchmarks
- Due Diligence Procedures
- Cost and Fees
- Brokerage and Trading
- Controversial Investment Practices
- Trust and Custody Arrangements
- Investment Accounting & Operations
- Administration



- Nature and functions of Board and Committees
- Staff duties
- Consultant's duties
- Lines of authority, separation of functions
- Relationship of fund assets and operations to plan sponsor
- Internal audit and Audit Committee issues




Governance

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- Organizational & statutory framework
 - Governance document
 - Rules of order
 - Board composition, terms, qualifications
 - Board duties & relationship to staff
 - Duties of Board officers
 - Committees of the Board – charters/bylaws, composition, roles
 - Roles of Management – relative to Board, Committees & external service providers
 - Delegations of authority
 - Internal controls – separation of functions, internal audit, middle office




Asset Allocation

- Organizational Structure & Resources
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- 
- Methodologies
 - Inputs/assumptions for risk/return analysis
 - Re-balancing process
 - Review of consultant's study
 - Relationship to liabilities
 - Projected "zone" under PPA
 - Pension funds vs. welfare funds



Due Diligence Procedures

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- **Selecting external managers**
 - **Investment aspects/ethical and practical aspects**
 - **Monitoring external and internal accounts, including compliance with guidelines**
 - **Clarity and thoroughness, by asset class and strategy**
 - **Commonalities/differences across DB plans vs. DC plans (401K, 403(b), 457)**



Controversial Investment Practices

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 - Trust and Custody Arrangements
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- **Derivative strategies**
 - Options
 - Futures
 - Managed futures
 - Swaps
 - Portable alpha
 - Commodities
 - **Hedge funds**
 - **Appraised assets**
 - Real estate
 - Private equity
 - **ETIs**
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