



44th Annual Meeting
Investments
“New Trustee Training”

Brian K. Collett, CFA, CAIA
October 27, 2011

INVESTMENTS

✘ A review of A Primer for Investment Trustees

Written by: Jeffery Bailey, Jesse Phillips, and Thomas Richards

The “primer” is a comprehensive discussion of investment issues relevant not only to investment trustees but also investment professionals who work with trustees.

<http://www.momapers.org/presentations>

“Collett CD – A Primer for Investment Trustees”



As the old saying goes, what
wise men do in the beginning,
fools do in the end.

-Warren Buffett

INVESTMENTS

Governance Structure

Investment Policy

The Fund's Mission

Who Does What.....

Session 1

GOVERNANCE STRUCTURE

GOVERNANCE STRUCTURE

Roles & Responsibilities

✘ Trustees

- + Empower experienced professionals to carry out directions and monitor and evaluate results
 - ✘ Appoint an Experienced Investment Professional - Chief Investment Officer or Investment Consultant(s)
 - ✘ Investment Policy Statement
 - ✘ Review Investment results

GOVERNANCE STRUCTURE

Roles & Responsibilities

- ✘ Experienced Professionals
 - + Investment Staff/Investment Consultant(s)
 - + Investment Managers
 - + Custodian Bank & Prime Broker

GOVERNANCE STRUCTURE

Lines of Authority

- ✘ Clearly Specified
- ✘ Refrain from reaching down and controlling decisions

GOVERNANCE STRUCTURE

Accountability Standards

- + Appropriate and realistic
- + Established in advance
- + Agreed upon
- + Evaluated upon within an expected range of outcomes
- + Designed to provide formal procedures for review

QUESTIONS FROM A NEW TRUSTEE

- ✘ Is the Fund's governance structure formally documented? If a Governance Policy Statement does not exist, how is the Fund's governance structure understood and communicated?
- ✘ Are responsibility, accountability, and authority appropriately aligned in all areas of the Fund's governance structure?
- ✘ Does the staff have the resources & authority to adequately carry out its responsibilities?
- ✘ What regular reports do the staff, the custodian, and the consultant provide to the investment committee?

QUESTIONS FROM A NEW TRUSTEE

- ✘ Are the trustees relatively involved as a group in terms of managing the staff, or do they tend to be “hands-off”?
- ✘ Do we retain a consultant? If so, how do the trustees and the staff use our consultant? What is our record of following the consultant’s recommendations?
- ✘ What are the core beliefs of the trustees as a body?
- ✘ What types of training are provided to new trustees?

How they do it....

Session 2

INVESTMENT POLICY

INVESTMENT POLICY

Attitudes toward important investment management issues

- ✘ Sections of an Investment Policy “rule book”
 - + Funds Mission
 - + Investment Risk Tolerance
 - + Investment Objectives
 - + Policy Asset Allocation
 - + Investment management structure
 - + Performance evaluation

INVESTMENT POLICY

- ✘ Why have an Investment Policy Statement?
 - + An “autopilot” setting for normal times and a stabilizer for the investment program during stressful times.
 - + Facilitates internal and external communication of investment policies
 - + Ensures continuity of policy during periods of turnover

QUESTIONS FROM A NEW TRUSTEE

- ✘ Do we have a formal written IPS? If not, why not?
- ✘ Does our IPS discuss the underlying rationale for the policies that we have adopted?
- ✘ Is there a regular review of the investment policy?
- ✘ What is the policy asset mix of the Fund? What was the process by which it was determined?
- ✘ What rebalancing rules does the staff follow to ensure that the Fund's actual asset allocation is in line with the policy asset mix?

*The Goal of what
everyone is doing.....*

Session 3

THE FUND'S MISSION

THE FUND'S MISSION

LAGERS Mission – Provide secure retirement, survivors', and disability benefits to members and beneficiaries in the most efficient and economical manner possible, while providing superior service and fulfilling its fiduciary obligations

THE FUND'S MISSION

- × The fundamental conflict
 - + Participants
 - × High benefit level (More Return)
 - × High benefit security (Less Risk)
 - + Employer
 - × Low funding cost (More Return)
 - × Low funding variability (Less Risk)

THE FUND'S MISSION

- ✘ Benefit payments
 - + Funded ratio
 - + Discount rate
- ✘ Contributions
 - + Three types of policies control managements pool of assets
 - ✘ Investment Policy
 - ✘ Funding Policy
 - ✘ Benefit Policy

QUESTIONS FROM A NEW TRUSTEE

- ✘ Who do we consider to be the primary stakeholders for the funds for which our investment committee has responsibility? How do we engage the stakeholders and understand their opinions?
- ✘ What range of the funded ratio do we feel comfortable with our pension plan? By how much should the funded ratio be allowed to fall below 100%?
- ✘ What is the current funded ratio of the pension plan, and how has it fluctuated over time?

QUESTIONS FROM A NEW TRUSTEE

- ✘ How is funding policy and benefit policy set for our various funds? Who are the parties responsible for these policies, and how do we interact with them?
- ✘ Do we have strategies in place to protect the pension plans funded ratio from fluctuations in liability values caused by interest rate changes?