Best Practices in Setting Investment Policies and Choosing Investment Consultants

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2. Elements of an Effective Investment Policy
3. Key Takeaways
4. Appendix A—Self Assessment
Role of an Investment Policy

1. Investment Planning
   - Establish Investment Objectives, Processes, and Strategy

2. Investment Policy Statement
   - Document Objectives, Processes & Strategy
   - Outlines the fundamental elements of the investment strategy and process
   - Sets guidelines for investment strategy implementation
   - Sets performance goals and framework for evaluating success

3. Strategy Execution
   - Ensure Compliance with Policy Guidelines

Investment Policy Statement (IPS) Value Proposition

- Documents key committee/board responsibilities
- Outlines the fundamental elements of the investment strategy and process
- Sets guidelines for investment strategy implementation
- Sets performance goals and framework for evaluating success
Elements of an Effective Policy

- Element #1: Investment Objectives
- Element #2: Trustee Responsibilities
- Element #3: Third-Party Roles and Responsibilities
- Element #4: Asset Allocation
- Element #5: Manager Selection/Termination
- Element #6: Performance Monitoring
- Element #7: Formal Review Requirement
II. INVESTMENT OBJECTIVES

The primary investment objective of the Trust is to provide retirement security for its participants. Within the asset allocation limits the objective is to strive for consistently superior long-term investment performance while taking appropriate levels of risk. Specific return objectives for the Plan include:

1. **Absolute Return** – Achieve an annualized return that equals or exceeds the actuarial expected rate of return.
2. **Relative Return** – Achieve an annualized return that exceeds the annualized return of the target allocation index. The target allocation index is further defined in Section ___.
3. **Peer Ranking** – Rank above median among a group of Plans with similar size attributes and investment objectives.
4. **Risk Objective** – Achieve an annualized standard deviation that is less than or equal to the target allocation index and peer group described in (2) and (3) above.

Each of these objectives will be assessed over the course of a market cycle, which is approximated by 5 years.
#2: Trustee Responsibilities

**Summary of Requirement**

Documents the scope of fiduciary responsibilities and standards of practice for the Trustees charged with investment strategy and oversight of the Plan.

**Sample Language**

III. **DUTIES AND RESPONSIBILITIES**

A. **TRUSTEE (INVESTMENT COMMITTEE)**
   
   A. **Prudence** – The standard of prudence to be applied by the Trustees and external service providers shall be the “Prudent Investor” rule, which states: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

   B. **Responsibilities** – The Trustees are responsible for creating the Investment Policy, establishing a target asset allocation, selecting investment managers, and allocating assets among managers. The Trustees will also monitor the overall portfolio, as well as the individual managers. The Trustees will meet on a periodic basis, no less frequently than annually. Expectations are for Trustees to attend meetings in person; however, attendance by teleconference will be permitted if in-person attendance is not possible.

   C. **Ethics and Conflicts of Interest** – Trustees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.
#3: Third Party Roles and Responsibilities

Summary of Requirement

Outlines general tasks and requirements that key third parties must meet in order to fulfill the objectives of the Plan. Key third parties may include, but are not limited to the investment consultant, investment managers, and custodian.

Sample Language

III. DUTIES AND RESPONSIBILITIES

B. INVESTMENT CONSULTANT

Trustees may retain an independent Investment Consultant at its discretion to assist in executing the provisions of this policy. In general, it is expected that the independent investment consultant will act in a non-discretionary capacity and acknowledge its status as a fiduciary as defined in section 3(21) of ERISA and will generally serve to provide assistance in developing, executing and monitoring the Plan’s investment program. Specific responsibilities of the Investment Consultant will be established and maintained under an investment consultant agreement, but generally include providing analysis and advice regarding asset allocation, policy development, manager structure, manager selection, and ongoing performance monitoring and due diligence.

Investment results will be reported by the Investment Consultant on a periodic basis and reported to the Trustees as soon as practicable after each calendar quarter. Key issues that the Investment Consultant may discuss, include but are not limited to historical performance, policy compliance, investment manager performance, investment manager compliance, and other material matters.
#4: Asset Allocation

## Summary of Requirement

Provides guidelines that specify the allowable asset classes in the portfolio, the target allocation to each asset class, the allowable allocation range for each asset class, and the rebalancing policy for the total portfolio.

## Sample Language

### IV. ASSET ALLOCATION AND REBALANCING

**A. Asset Allocation**

The Trustees are responsible for determining the target asset allocation for the investments that will best meet the needs of the Pension Plan. The Trust shall employ a diversified asset allocation strategy that avoids excessive exposure to any one source of risk. The Trustees will periodically review the target asset allocation to determine if the strategy continues to be appropriate in meeting investment objectives. The long-term target asset allocation is set forth in Appendix A.

**B. Rebalancing Policy**

On an ongoing basis and in accordance with market fluctuations, the Trustees shall rebalance the investment portfolio so it remains within the range of targeted allocations as specified in Appendix A. When any one of the asset classes hits a trigger point (i.e., falls outside the permissible minimum or maximum range), the Trustees with the assistance of the Investment Consultant, may consider rebalancing the specific asset class(es) back to the target allocation, or any point between the target and upper and lower limits of the range, as market conditions permit. Accordingly, qualitative considerations will be considered in determining the potential timing and extent of rebalancing actions.
#5: Manager Selection/ Termination

**Summary of Requirement**

*Provides a broad set of guidelines that governs the selection of investment managers, as well as criteria that may prompt termination of underperforming managers.*

## Sample Language

### V. INVESTMENT MANAGER SELECTION AND TERMINATION

**A. Investment Manager Selection** – The Trustees, with the assistance of the Investment Consultant, has full authority to select investment managers to invest assets on behalf of the Plan.

**B. Investment Manager Termination** – The Trustees recognize that there are no mandatory rules for investment manager watch status or termination. However, if an actively managed investment manager has continued to underperform its index and peer group, failure to remedy the circumstances within a reasonable time, is grounds for termination. For passively managed investments, the Trustees will evaluate based on the degree to which the manager reasonably tracks the performance of an applicable market index. The Trustees expect to use both quantitative and qualitative criteria to help determine whether or not the investment manager should be placed on watch or terminated. Qualitative criteria may include, but are not limited to:

1. Change in investment philosophy, strategy, style or fees
2. Change in key personnel
3. Change in organizational structure or financial condition
4. Governmental, regulator or legal investigations, developments or settlements
#6: Performance Monitoring

Summary of Requirement

Establishes a base level of requirements for performance reporting frequency and scope. Ensures that the Committee reviews performance on a periodic basis. The frequency and depth of performance reporting may vary depending upon the Plan's unique objectives and investment strategy.

Sample Language

VI. PERFORMANCE MONITORING

The Trustees will review performance of the Plan on a periodic basis, no less frequently than annually. Reviews will, at a minimum, cover the key return and risk attributes of the Plan relative to long term objectives. Specific performance objectives for investment managers are outlined in Appendix A.
#7: Formal Review Requirement

**Summary of Requirement**

Requires the Committee/Board to conduct a formal review of the investment policy on a periodic basis (typically once per year). Ensures that the IPS is current, relevant, and realistic given the evolving needs of the Plan.

**Sample Language**

X. **INVESTMENT POLICY REVIEW**

The Investment Committee will review the Investment Policy periodically. Any changes or amendments to the Investment Policy may be made at any time and must be approved by the Investment Committee.
# Common Problems

<table>
<thead>
<tr>
<th>Problem</th>
<th>Examples</th>
<th>Solutions</th>
</tr>
</thead>
</table>
| **Lack of Clarity on Plan Objectives and Constraints** | Vague performance objectives, such as “the return objective is to generate both growth and income.” | • Establish quantitative performance objectives  
  • Example: “The return objective of the Plan is to generate a real return net-of-fees of 4% per year + CPI and to exceed the median return of a comparable peer group with similar investment objectives.” |
| ** Poor Segmentation of Sections Subject to Frequent Changes** | IPSs that embed requirements that are subject to frequent change in the body of the policy (e.g., target asset allocation). | • Use appendices to segment sections of the policy that are likely to undergo frequent changes. |
| **Inaccurate or Outdated IPS Language** | Policies that become dated due to the lack of a formal review requirement or overly prescriptive language. | • Incorporate an IPS review after each investment decision that may impact the investment objectives, strategy, or manager guidelines.  
  • Include less prescriptive language in the policy that provides more flexibility or requires periodic formal reviews. |
| **Overly Specific Language** | Policy references investment details that change frequently and thus quickly render the language outdated or inaccurate (e.g., references to specific indexes, peer groups, security types, investment managers). | • Write policies that establish enduring, conceptual guidelines, which will remain relevant as markets evolve. |
| **Unenforceable Investment Manager Requirements** | Policy details requirements for investment managers that are impossible to enforce (e.g., sector and quality constraints for fixed income managers when only pooled vehicles are in use). | • Reference manager prospectuses or investment manager agreements as the ultimate guide for investment managers. |

I03-12
<table>
<thead>
<tr>
<th>Problem</th>
<th>Examples</th>
<th>Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealistic Performance Expectations</td>
<td>IPS sets performance expectations that a large majority of investment managers are unlikely to achieve.</td>
<td>• Set performance standards that are aggressive but reasonable.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Example: The return objective of large cap equity managers is to produce a net-of-fees annualized return that exceeds the return produced by a comparable benchmark over a trailing 5-year period.</td>
</tr>
<tr>
<td>Absence of a Rebalancing Policy</td>
<td>IPS fails to establish any guidelines for rebalancing the portfolio.</td>
<td>• Include specific guidelines that govern the frequency and triggers for portfolio rebalancing.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Example: A rebalancing procedure as deemed appropriate by the Investment Committee will be implemented at least annually, or when significant cash flows occur.</td>
</tr>
<tr>
<td>Absence of Review and Performance Monitoring Guidelines</td>
<td>Plans that do not list specific performance review standards, such as meeting and performance reporting frequency.</td>
<td>• Include language that establishes a meeting and reporting frequency (should be reasonable and realistic).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Meeting Example: The Investment Committee will meet at least on a quarterly basis. Unless required by exceptional circumstances, all meetings will be conducted in person.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Reporting Example: The Investment Consultant will provide quarterly performance reports to the Investment Committee.</td>
</tr>
<tr>
<td>Failure to Follow Investment Policy Guidelines</td>
<td>IPS identifies procedures and processes that the Investment Committee fails to follow.</td>
<td>• Include language that outlines general processes but allows for flexibility in fulfilling duties and responsibilities.</td>
</tr>
</tbody>
</table>
Appendix A

Self Assessment
**Investment Objectives**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the policy state the current return and risk objectives of the Plan?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the policy outline liquidity/spending requirements (if appropriate)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the policy outline any relevant legal and regulatory requirements?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Roles and Responsibilities**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the policy outline responsibilities of the Trustees/Committees?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the policy outline responsibilities of the Investment Managers?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the policy outline responsibilities of the Investment Consultant?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the policy outline responsibilities for other third parties (e.g., custodian)?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Performance Objectives and Monitoring**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the policy provide total fund performance objectives that are realistic and appropriate?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the policy set performance expectations for individual fund managers?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the policy outline criteria that may prompt investment manager termination?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Asset Allocation**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the policy establish a target allocation?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the policy establish ranges for acceptable deviations from target ranges?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the policy set a process for rebalancing the portfolio to the target allocation?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Policy Review and Compliance**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the policy include overly specific language that may become quickly outdated (e.g., manager names)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do the Trustees/Committee have processes in place to comply with the guidelines set forth in the Policy?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is the policy reviewed after the Trustees/Committee make impactful decisions?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Instructions:** Review each question below and indicate to the best of your knowledge whether the current investment policy meets the recommended standard. For questions marked “no” the Trustees/Committee may wish to review the language in order to improve the quality of the investment policy.
Investment Consultant Model Has Evolved Over Time

- Traditional Consulting (Non-Discretionary) Relationship
  - Retainer Fee
  - Manager Search or Project-Based

- OCIO Model—Outsourced CIO (Discretionary)
  - Asset-based Fee
  - Investment Committee turns over all decision making regarding tactical asset allocation and manager selection once overall asset allocation is determined
Asset-Based Consulting Fee

• Asset Based Fee Investment Consulting (Either Discretionary or Non-Discretionary)
  – Sold as Alignment of Interests but Does Not Align Interests in the Same Way as a Performance or Incentive Fee Schedule
  – Driven by Greed as it Allows Investment Consultants to Participate in Asset Growth Along with Underlying Investment Managers and Not Have to Request Annual Fee Increases
  – Makes Much More Sense for Discretionary Investment Consultants (OCIO’s) Compared to Non-Discretionary Consultants
Investment Consultant Evaluation

• Sources of Return
  – Strategic Asset Allocation and Policy Return
  – Actual Asset Allocation Return using Passive Indices
  – Manager Selection and on-going Evaluation

• Attribute Sources of Value Added Relative to Policy Return
  – Actual Asset Allocation versus Policy
  – Manager’s Value-Added Relative to Policy Benchmarks

• Peer Universe Comparison
  – How Does Total Return Compare to Peers of Similar Asset Sizes?

• General Investment Consulting Comments
  – Potential Conflicts when Using Less-than-fully Independent Consultants
Investment Consultant
Total Portfolio Evaluation

• Comparison of Actual Portfolio Return and Risk Levels to:
  – Policy or Target Portfolio (using market benchmark indices)
  – Relevant peer universe of foundations or family offices
  – Performance of other similarly-sized family office clients of Investment Consultant
Investment Consultant
Total Portfolio Evaluation

• Performance Attribution detailing the value-added from the following sources:
  – Asset Allocation (comparing actual asset class allocations to target or policy allocations with market indices)
  – Sub-Asset Class Allocation (comparing actual sub-asset class allocations to target or policy allocation with market indices)
  – Manager Selection (comparing actual asset class returns to market indices)
In 2009, the National Association of College and University Business Officers (NACUBO) and the Commonfund Institute created the first NCSE (NACUBO-Commonfund Study of Endowments)

<table>
<thead>
<tr>
<th>Total Assets</th>
<th>Number of Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $1 billion</td>
<td>94</td>
</tr>
<tr>
<td>Between $501 million and $1 billion</td>
<td>77</td>
</tr>
<tr>
<td>Between $101 and $500 million</td>
<td>261</td>
</tr>
<tr>
<td>Between $51 and $100 million</td>
<td>167</td>
</tr>
<tr>
<td>Between $25 and $50 million</td>
<td>117</td>
</tr>
<tr>
<td>Less than $25 million</td>
<td>96</td>
</tr>
<tr>
<td>Total</td>
<td>812</td>
</tr>
</tbody>
</table>

Source: NCSE 2015 Study
Substantial Differences in Asset Allocation Evident

Source: NCSE 2015 Study
Differences in Asset Allocation

• The fact that large funds rely on alternative investments to lower their volatility while small funds focus on domestic equities and fixed income leads to two questions:

  – Why are their differences in their asset allocations?
  – Do the large funds have it right and should small funds invest in a similar way?
Percent of Institutions Using Consultants Varies Moderately By Foundation Size

Source: NCSE 2015 Study
Reasons for Outsourcing—OCI O Model

• If the larger funds allocation “is right”, then smaller funds facing resource constraints look to outsourcing to get what they cannot get on their own (more alternative exposure or overall investment expertise)

• One-stop shopping and smaller funds can basically turn over decision making to “investment experts”

• “Our smaller fund can look more like the Yale Portfolio if we outsource”
Outsourcing of Investment Function
More Likely for Smaller Funds

Source: NCSE 2015 Study
Problems with Outsourcing

• Outsourcing can limit ability of fund to adapt to quickly changing markets (also a problem with alternative investments in general; it’s difficult to quickly unwind positions)

• From an investment committee member’s fiduciary perspective, how do you monitor the outsourcer’s return and investment process?
  – Preferably a fund would hire an independent investment consultant to provide input on how the outsourcing firm is performing, adding a third layer of costs that have to be earned back
TWIN’s Perspectives on Risk

- Risk Relates to Variability of Asset Returns and Ability to Fund Investor Goals
- Risk Measures Are Usually Statistical Concepts; Risk Issues Are Broader in Scope
- Trade-off Exists Between Absolute and Relative Risks of a Portfolio Compared to a Market (Benchmark) Index
- Risk Levels Have Investment Implications; Dynamic Tracking Error Management is Key Element of Consistent Value-added
## Risk Does Matter
### The Mathematics of Compounding

**It's Tougher to Get It Back**

<table>
<thead>
<tr>
<th>If You Lose</th>
<th>Then You Need</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>55%</td>
<td>122%</td>
</tr>
<tr>
<td>75%</td>
<td>300%</td>
</tr>
</tbody>
</table>

Of an investment ... To get back to where you started

*Actual peak to trough decline in S&P 500 during recent bear market.*
<table>
<thead>
<tr>
<th></th>
<th>Investment A</th>
<th>Investment B</th>
<th>Investment C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Annual Return</td>
<td>8.0%</td>
<td>8.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>10.1%</td>
<td>20.1%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Annualized (Geometric)</td>
<td>7.5%</td>
<td>6.0%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Return Value of $1,000,000</td>
<td>$ 4,273,985</td>
<td>$ 3,212,138</td>
<td>$ 3,542,465</td>
</tr>
</tbody>
</table>

- **Average Annual Return is 8% for Investments A & B.** The Standard Deviation for B (20.1%) is twice that of A and C (10.1%). While the Average Annual Return is the same for both investments A & B, the Annualized (Geometric) Return is higher for Investment A.

- While the Average Annual Return is lower for Investment C compared to B, the Annualized Return is actually greater than Investment B’s due to Investment C’s lower standard deviation.

**Lower Annual Standard Deviation Means Higher Geometric (“Compounded”) Annual Return and Ending Wealth Level!**
Extreme Daily Changes Often Cluster

S&P 500 Index - Daily Performance (Dividends Omitted)

<table>
<thead>
<tr>
<th>Best Days</th>
<th>Worst Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank</td>
<td>Date</td>
</tr>
<tr>
<td>1</td>
<td>13-Oct-2008</td>
</tr>
<tr>
<td>2</td>
<td>28-Oct-2008</td>
</tr>
<tr>
<td>3</td>
<td>21-Oct-1987</td>
</tr>
<tr>
<td>4</td>
<td>23-Mar-2009</td>
</tr>
<tr>
<td>5</td>
<td>13-Nov-2008</td>
</tr>
<tr>
<td>6</td>
<td>24-Nov-2008</td>
</tr>
<tr>
<td>7</td>
<td>10-Mar-2009</td>
</tr>
<tr>
<td>8</td>
<td>21-Nov-2008</td>
</tr>
<tr>
<td>9</td>
<td>24-Jul-2002</td>
</tr>
<tr>
<td>10</td>
<td>30-Sep-2008</td>
</tr>
<tr>
<td>11</td>
<td>29-Jul-2002</td>
</tr>
<tr>
<td>12</td>
<td>20-Oct-1987</td>
</tr>
<tr>
<td>13</td>
<td>16-Dec-2008</td>
</tr>
<tr>
<td>14</td>
<td>28-Oct-1997</td>
</tr>
<tr>
<td>15</td>
<td>8-Sep-1998</td>
</tr>
<tr>
<td>16</td>
<td>27-May-1970</td>
</tr>
<tr>
<td>17</td>
<td>3-Jan-2001</td>
</tr>
<tr>
<td>18</td>
<td>29-Oct-1987</td>
</tr>
<tr>
<td>19</td>
<td>20-Oct-2008</td>
</tr>
<tr>
<td>20</td>
<td>16-Mar-2000</td>
</tr>
</tbody>
</table>

In data from January 2, 1957 – September 30, 2016 22 of 40 of the most extreme days (identified in red) have occurred since September 15, 2008.
Ending Investment Value Influenced By Select Days

Impact of Big Market Moves
S&P 500

Cumulative Value of $1

- All Days
- Excluding Extreme Pos Days
- Excluding Extreme Neg Days

Value on 9/30/2016

- 224.3
- 46.9
- 13.8
Investment Implications of Extremes

• Recent Extreme Ups and Downs Dramatically Raise Measured Risk
• Significant Changes to Ending Wealth Associated with Extreme Market Moves
• Difficult to Forecast Onset of Extreme Moves, Although Clustering Evident
• Non-Correlated Alternative Asset Allocation (Beta=0) Can Reduce Risk and Return Shortfall
Long Daily History Shows Substantial Intra-Year Draw-downs in S&P 500

Annual Returns & Intra-Year Declines: S&P 500 Index
1958 - 2015

Intra-year declines (of up to 126 days) average 13.4% even though the S&P 500, omitting dividends, is up on average 8.3% per year.
More Risk Required for the Same Reward

Asset Allocation Required to Generate a 7.5% Return

- Bonds
- U.S. Large Cap Equity
- U.S. Small Cap Equity
- Real Estate
- Non-U.S. Equity
- Private Equity

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocation Percentage</th>
<th>Bonds</th>
<th>U.S. Large Cap Equity</th>
<th>U.S. Small Cap Equity</th>
<th>Real Estate</th>
<th>Non-U.S. Equity</th>
<th>Private Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td></td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Expected Return 7.5% 7.5% 7.5%
Standard Deviation 6.0% 8.9% 17.2%

Source: Wall Street Journal (June 1, 2016)
Choosing Investment Consultants

- Discretionary vs. Non-Discretionary
  - Retainer Fee vs. Asset-Based Fee
- Assistance in Establishing Investment Policy Statement, including Target Asset Allocation and Allowable Ranges
- Manager Research Capabilities
- On-going Monitoring of Performance with Peer Comparisons
- Ability to Steer the Investment Committee to a Satisfactory Consensus
Important Disclosures

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. INVESTMENTS ARE NOT GUARANTEED AND MAY LOSE VALUE.

TWIN Capital Management, Inc. (TWIN) is a registered investment advisor founded in April 1990 and headquartered in McMurray, Pennsylvania.

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MARKET DATA
Where market and/or index data is presented, it has been obtained from a variety of sources deemed reliable. These sources may include some or all of the following: Russell Investments, FactSet Research Systems, and Ford Equity Research. TCM assumes no responsibility for the accuracy of this data.

INDEX INFORMATION
The S&P 500 Index is a representative measure of 500 leading companies from leading industries; the index is a benchmark for the large-cap segment of U.S. equity market. Company weights in the index are proportional to firms’ available market capitalization (price times available shares outstanding). A Committee at Standard and Poor’s maintains the index with a focus on liquidity and investability.
Key Takeaways

Session #I03
Best Practices in Setting Investment Policies and Choosing Investment Consultants

- Invest sufficient time and effort up front to create a comprehensive, succinct, and enduring Policy.
- Ensure proper coverage of key sections (see slides 4-11)
- Be cognizant of common problems and be proactive in addressing them (see slides 12-13)
- Avoid re-inventing the wheel (leverage sample policies provided by peers)
- Investment consulting model has shifted
  - Growth of outsourcing (OCIO)
  - New fee arrangements
- Appropriate performance evaluation and attribution is critical
  - Does outsourcing add value?
  - Peer comparisons
- Plan size impacts asset allocation and consultant relationships
- Returns volatility is drag on performance

Website Resources
https://www.ifebp.org/inforequest/ifebp/0165616.pdf

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November 13-16, 2016
Orlando, Florida
2017 Educational Programs
Investments

63rd Annual Employee Benefits Conference
October 22-25, 2017
Las Vegas, Nevada
www.ifebp.org/usannual

Investments Institute
March 13-15, 2017
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www.ifebp.org/investments

Portfolio Concepts and Management
May 1-4, 2017
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