

Setting Standards for a Prudent Investment Process

Step One—Analyze Current Position

1. Investments are managed in accordance with applicable laws, trust documents, and written investment policy statements.
2. Fiduciaries are aware of their duties and responsibilities.
3. Fiduciaries and parties in interest are not involved in self-dealing.
4. Service agreements and contracts are in writing and do not contain provisions that conflict with fiduciary standards of care.
5. There is documentation to show timing and distribution of cash flows and the payment of liabilities.
6. Assets are within the jurisdiction of U.S. courts and are protected from theft and embezzlement.

Step Two—Allocate Portfolio

1. A risk level has been identified.
2. An expected, modeled return to meet investment objectives has been identified.
3. An investment time horizon has been identified.
4. Selected asset classes are consistent with the identified risk, return, and time horizon.
5. The number of asset classes is consistent with portfolio size.

Step Three—Formalize Investment Policy

1. There is detail to implement a specific investment strategy.
2. The IPS defines duties and responsibilities of all parties involved.
3. The IPS defines diversification and rebalancing guidelines.
4. The IPS defines the monitoring criteria for investment options and service vendors.
5. The IPS defines procedures for controlling and accounting for investment expenses.
6. The IPS defines appropriately structured, socially responsible investment strategies (when applicable).

Step Four—Implement Investment Policy

1. The investment strategy is implemented in compliance with the required level of prudence.
2. The fiduciary is following applicable “safe harbor” provisions (when elected).
3. Investment vehicles are appropriate for the portfolio size.
4. A due-diligence process is following in selecting service providers, including the custodian.

Step Five—Monitor and Supervise

1. Periodic reports compare investment performance against appropriate index, peer group, and IPS objectives.
2. Periodic reviews are made of qualitative and/or organizational changes of investment decision makers.
3. Control procedures are in place to periodically review policies for best execution, soft dollars, and proxy voting.
4. Fees for investment management are consistent with agreements and the law.
5. “Finders Fees,” 12b-1 fees, or other forms of compensation that may have been paid for asset placement are appropriately applied, utilized and documented.

Source: Foundation for Fiduciary Studies