

# STEP 3: IMPLEMENT

## PRACTICE S-3.1

### THE INVESTMENT STRATEGY IS IMPLEMENTED IN COMPLIANCE WITH THE REQUIRED LEVEL OF PRUDENCE.

#### CRITERIA

**3.1.1** A due diligence procedure for selecting investment options exists.

**3.1.2** The due diligence process is consistently applied.

In most cases, Stewards are not expressly required to use professional money managers. However, Investment Stewards will likely be held to the same expert standard of care, and their activities and conduct will be measured against those of investment professionals.\*

The prudent Steward is strongly encouraged to delegate investment decisions to professionals when lacking the requisite expertise.

SUGGESTED FIELDS OF DUE DILIGENCE	Threshold Defined by fi360	Threshold Defined by Fiduciary	IPS (Practice 2.6)	Implement (Practice 3.1)	Monitor (Practice 4.1)
Due diligence is reflected in procedures					
1. Regulatory oversight	Each investment option should be managed by: (a) a bank, (b) an insurance company, (c) a registered investment company (mutual fund), or (d) a registered investment adviser.				
2. Minimum track record	Each investment option should have at least three years of history so that performance statistics can be properly calculated.				
3. Stability of the organization	The same portfolio management team should be in place for at least two years.				
4. Assets in the product	Each investment option should have at least \$75 million under management (for mutual funds - can include assets in related share classes).				
5. Holdings consistent with style	At least 80% of the underlying securities should be consistent with the broad asset class.				
6. Correlation to style or peer group	Each investment option should be highly correlated to the asset class being implemented.				
7. Expense ratios/fees	Fees should not be in the bottom quartile (most expensive) of the peer group.				
8. Performance relative to assumed risk	The investment option's risk - adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group median manager's risk-adjusted performance.				
9. Performance relative to a peer group	Each investment option's performance should be evaluated against the peer group's median manager return, for 1-, 3-, and 5-year cumulative periods.				
10. Other					
11. Other					

**THE INVESTMENT STRATEGY IS IMPLEMENTED IN COMPLIANCE WITH THE REQUIRED LEVEL OF PRUDENCE.**

**Substantiation**

**Employee Retirement Income Security Act of 1974 [ERISA]**

§402(c)(3); §403(a)(1) and (2); §404(a)(1)(B)

*Regulations*

29 C.F.R. §2550.404a-1(b)(1) and (2)

*Case Law*

772 F.2d 951 (D.C. Cir. 1985); *Katsaros v. Cody*, 744 F.2d 270, 5 E.B.C. 1777 (2nd Cir.), *cert. denied*, 469 U.S. 1072, 105 S.Ct. 565, 83 L.Ed.2d 506 (1984); *Donovan v. Mazzola*, 716 F.2d 1226 (9th Cir. 1983), *cert. denied*, 464 U.S. 1040, 104 S.Ct. 704, 79 L.Ed.2d 169 (1984); *United States v. MasonTenders Dist. Council of Greater New York*, 909 F. Supp. 882, 19 E.B.C. 1467 (S.D.N.Y. 1995); *Trapani v. Consolidated Edison Employees' Mutual Aid Society*, 693 F. Supp. 1509 (S.D.N.Y. 1988)

**Uniform Prudent Investor Act [UPIA]**

§2(c); §2(f); §9(a)(1-3)

**Uniform Prudent Management of Institutional Funds Act [UPMIFA]**

§3(b); 5(a)

**Management of Public Employee Retirement Systems Act [MPERS]**

§6(a); §6(b)(1); §6(b)(3); §7(3); §8(a)(1)

- \* *A professional who receives compensation as a trustee or holds themselves out as possessing skills comparable to those of a professional trustee is held to a prudent expert standard of care. Although a court may not find a lay trustee financially liable in the same manner as a professional trustee, the court could find a cause for dismissing the trustee from his or her duties. In the case where the lay trustee held themselves out as having appropriate skills, the court would likely hold even the lay trustee to an expert standard of care.*