

PRACTICE S-3.4

A DUE DILIGENCE PROCESS IS FOLLOWED IN SELECTING SERVICE PROVIDERS, INCLUDING THE CUSTODIAN.

Custodial selection is a very important fiduciary function. Most Investment Stewards abdicate the decision to the Investment Advisors or Investment Managers. Yet, as with other prudent practices, there are a number of important decisions that need to be managed. The role of the custodian is to: (1) hold securities for safekeeping, (2) report on holdings and transactions, (3) collect interest and dividends, and, if required, (4) effect trades.

At the retail level, the custodian typically is a brokerage firm. Most securities are held in street name, with the assets commingled with those of the brokerage firm. To protect the assets, brokerage firms obtain adequate and appropriate insurance. Most institutional investors choose to use trust companies as custodians and pay an additional custody fee. The primary benefit is that the assets are held in a separate account, and are not commingled with other assets of the institution.

CRITERIA

- 3.4.1 A documented due diligence process is applied to select the custodian and all other service providers.
- 3.4.2 The custodian has appropriate and adequate insurance to cover the portfolio amount.
- 3.4.3 An appropriate sweep money market fund is selected.
- 3.4.4 An inquiry has been made as to whether the custodian can facilitate performance reporting and year-end tax statements.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§402(a)(1); §402(b)(2); §404(a)(1)(B)

Other

Interpretive Bulletin 96-1, 29 C.F.R. §2509.96-1; DOL Information Letter, Qualified Plan Services (7/28/98); DOL Information Letter, Service Employee's International Union (2/19/98)

Uniform Prudent Investor Act [UPIA]

§2(a); §7; §7 Comments; §9(a) (1), (2) and (3)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §3(c); §5(a)

Management of Public Employee Retirement Systems Act [MPERS]

§6(a) and (b)(1) and (2); §7