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# Putting the Investment Policy Statement at the center of your Fiduciary Process

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# Agenda



- Importance of the IPS
- Evolution of thoughts and use
- Structure and contents
- Using the IPS to manage investment workflows
- Managing the IPS
- Questions and discussion

# Importance of the IPS

- The business plan for the portfolio.
- Sufficient detail for a competent third party to implement.
- Not so detailed to require constant revisions and updates.

# Evolution of Thoughts and Use



- Previous Environment
  - Inconsistent standards of care
  - Moderate investor awareness
  - Varying perspectives

# Evolution of Thoughts and Use



- Objections to the use of an IPS
  - Not fit for purpose
    - Too vague or too detailed
  - Operational
    - Scaling the monitoring, execution, and supervision
  - Liability
    - Partially driven by fit for purpose and operational objections
    - Rejection of fiduciary status/standard of care/responsibility

# Evolution of Thoughts and Use



- Current Environment
  - Fiduciary standard of care/new DOL rule
  - Increased investor awareness
    - Case law
    - John Oliver
  - Regulation driving more standard BD perspectives

# Evolution of Thoughts and Use



## IPS Usage by Advisors on this Call

Question: Are you currently using an IPS?

<b>Client type</b>	<b>Respondents</b>	<b>Yes, always</b>	<b>Yes, sometimes</b>	<b>Never</b>	<b>n/a – excluded from sample</b>
w/ DC Plans	697	367 (65%)	144 (26%)	50 (9%)	136
w/ WM	697	218 (41%)	199 (37%)	117 (22%)	163
w/ Other	687	146 (31%)	174 (37%)	149 (32%)	218



# Evolution of Thoughts and Use



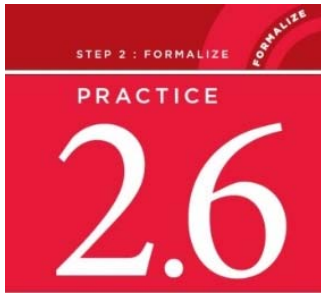
## IPS Usage by Plan Size and Implications

	<u>OVERALL</u>	<u>MICRO</u>	<u>SMALL</u>	<u>MID</u>	<u>LARGE</u>	<u>MEGA</u>
<b>2015<sup>(1)</sup></b>	66.90%	42.70%	67.40%	88.90%	89.20%	85.70%
<b>2014<sup>(1)</sup></b>	64.70%	43.60%	67.70%	81.50%	83.50%	86.20%

<sup>(1)</sup> 2014 and 2015 PLANSPONSOR DC Survey: Plan Benchmarking

## One Third of Plans audited in last two years<sup>(2)</sup>

<sup>(2)</sup> Per July 2016 Willis Towers Watson survey of 300 US plan sponsors



# Structure and Contents



The investment policy statement (IPS) contains sufficient detail to define, implement, and monitor the client's investment strategy.

- 2.6.1 The investment policy statement identifies the bodies of law governing the portfolio.
- 2.6.2 The investment policy statement defines the duties and responsibilities of all parties involved.
- 2.6.3 The investment policy statement specifies risk, return, and time horizon parameters.
- 2.6.4 The investment policy statement defines diversification and rebalancing guidelines consistent with risk, return, and time horizon parameters.
- 2.6.5 The investment policy statement defines due diligence criteria for selecting investment options.
- 2.6.6 The investment policy statement defines procedures for controlling and accounting for investment expenses.
- 2.6.7 The investment policy statement defines monitoring criteria for investment options and service vendors.

# Using the IPS to Manage Workflows



## Addressing IPS Objections

- Fit for purpose
  - Right level of detail
  - Principles-based (Duties of Loyalty & Care)
- Liability
  - Adherence to prudent process
  - Record process activities and decisions
  - Document in monitoring reports
- Operational
  - Automate what you can
    - Target Allocations/Rebalancing
    - Watch-list Criteria/Monitoring
  - Central surveillance (risk mgmt liability)

# Managing the IPS



- Practice/Criteria related to use and ongoing management of IPS
  - 1.2.3: Investments managed & services provided in accordance with governing documents (i.e., IPS)
  - 1.3.1: Roles/responsibilities documented in IPS
  - 2.6: IPS essential elements
  - 2.7.2: Document use of SRI in IPS
  - 4.5.1: Annual review of IPS
- Benefits
  - Instills discipline during periods of market upheaval
  - Ensures consistent, coherent process
  - Positively addresses liability

# Questions

Additional information on fiduciary trends can be found at

fi360 Fiduciary Talk Podcast

[www.fi360.com/fiduciarytalk](http://www.fi360.com/fiduciarytalk)

Also available on iTunes

and

fi360 Blog

[www.fi360.com/blog](http://www.fi360.com/blog)

Questions about the content of this webinar or CE can be directed to

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