



Bridgebay
Investment Consulting Services

Investment Policy Statements for DC Plans

Presented by:

Linda Ruiz-Zaiko, President
Bridgebay Financial, Inc.
ruiz-zaiko@bridgebay.com
www.bridgebay.com



Bridgebay
Investment Consulting Services

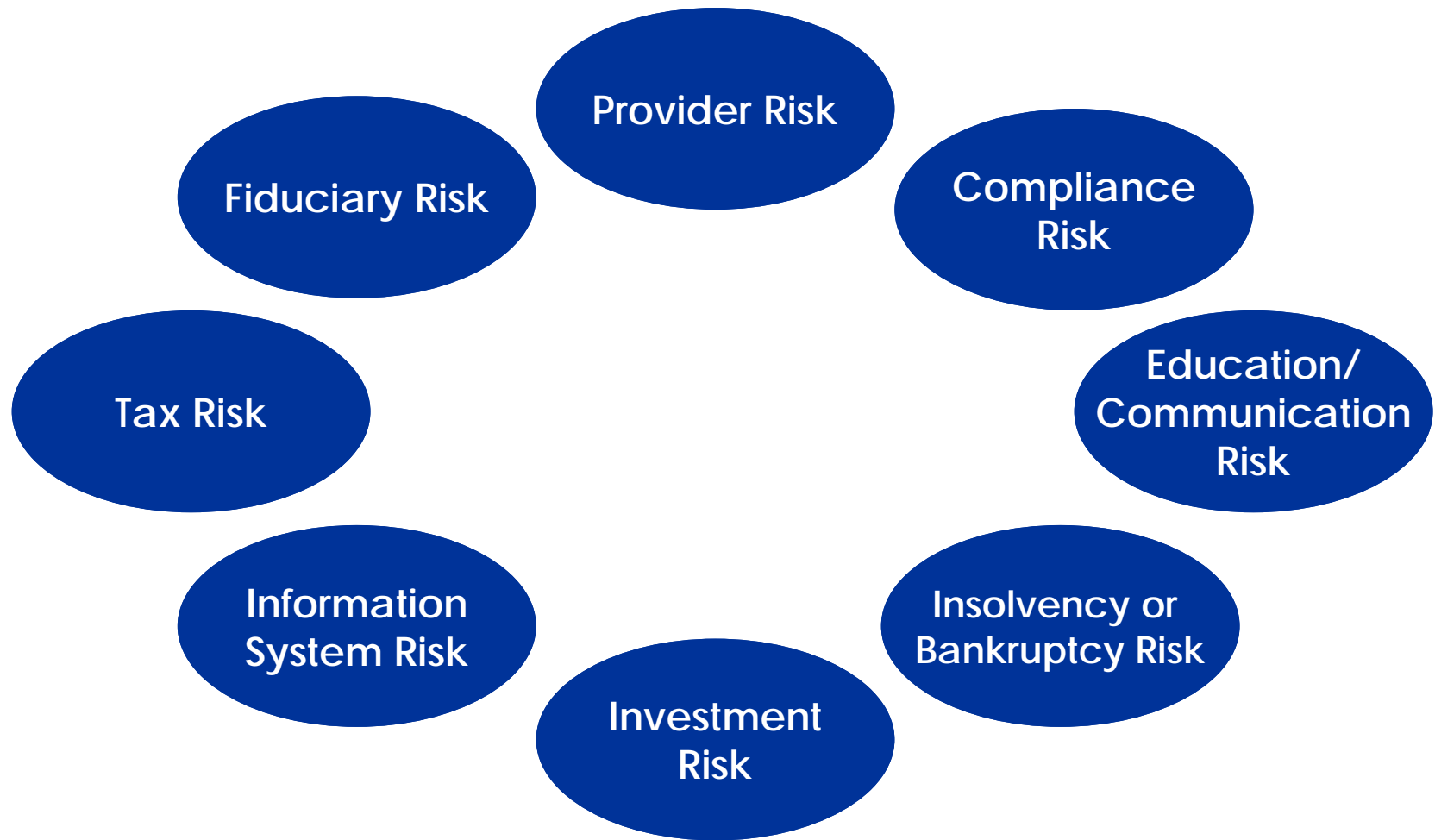
Marlow Kee, CPA
Director of Finance
PATH
www.path.org





- ▶ **New legislation, litigation, regulations require update your DC plan IPS**
- ▶ **Pension Protection Act 2006**
 - ▶ Incorporate new plan features and enhancements
 - ▶ Provides safe harbors for plan sponsors
- ▶ **Litigation – Providers and Plan Sponsors**
 - ▶ 15 companies sued since September, 2006
 - ▶ Most have 401(k) plans > \$2 billion assets
 - ▶ Best defense is a well-documented, prudent process
- ▶ **Increased DOL audits**
 - ▶ Focus on due diligence, process and procedures
 - ▶ IPS consistent with plan document and IRS Form 5500







- ▶ **Statement of Purpose**
- ▶ **Plan Information**
- ▶ **Plan Objectives**
- ▶ **Delegation of Responsibilities and Authority**
 - ▶ Fiduciaries and Responsibilities
 - ▶ Plan Sponsor
 - ▶ Trustee
 - ▶ Investment Manager
 - ▶ Plan Administrator
 - ▶ Deferred Compensation Committee
 - ▶ Investment Consultant
- ▶ **Prudence, Responsibilities and Controls**
- ▶ **Investments**
 - ▶ ERISA 404(c) Statement
 - ▶ Asset Allocation
 - ▶ Diversification of Funds
 - ▶ Default Funds
- ▶ **Fund Selection Criteria**
 - ▶ Risk/Return
- ▶ **Investment Fund Evaluation**
 - ▶ Qualitative Evaluation
 - ▶ Quantitative Evaluation
 - ▶ Performance Standards (Net of Fees)
 - ▶ Performance Benchmarks



- ▶ **Benchmark Peer Group**
- ▶ **Fees**
- ▶ **Reporting and Monitoring Procedures**
 - ▶ Watch List Criteria
 - ▶ Retain Fund, Review Fund, Watch List, Terminate, Replace Fund
 - ▶ Ongoing Performance Standards
 - ▶ Ongoing Quantitative/Qualitative Standards
- ▶ **Participant Education and Communication**
- ▶ **Prohibited Transactions**
- ▶ **Reporting and Administrative Requirements**
 - ▶ Fees, Transaction and Proxy Voting Policies
- ▶ **Risk Management**
- ▶ **Participant Investment Control Parameters**
- ▶ **Compliance with Plan Document**
- ▶ **Annual Review of IPS and Plan**



- ▶ **Pension Protection Act 2006 (PPA)**
- ▶ **Qualified Default Investment Alternative (QDIA)**
 - ▶ Employer granted safe harbor against fiduciary liability
- ▶ **Department of Labor has defined QDIA and/or:**
 - ▶ Age-based, lifecycle or targeted-retirement-date fund or account
 - ▶ Risk-based balanced fund
 - ▶ An investment management service



- ▶ **Greater risks associated with company stock in 401(k) plans**
 - ▶ Company match
 - ▶ Investment choice
- ▶ **DOL targeting company stock for audits**
- ▶ **122 stock-drop suits filed using ERISA over last 5 years**
 - ▶ Target companies with own stock in 401(k) plans
 - ▶ 21 suits 2005
 - ▶ 19 suits 2006





- ▶ Statement of Purpose
- ▶ Plan Information
- ▶ Plan Objectives
- ▶ Delegation of Responsibilities and Authority
 - Fiduciaries and Responsibilities
 - Prudence, Responsibilities and Controls
- ▶ ERISA 404 (c) Intent
- ▶ Prohibited Transactions
- ▶ Investments and Asset Allocation
- ▶ Monitoring and Due Diligence
- ▶ Reporting and Administrative Requirements
- ▶ Plan Cost Management
- ▶ Transaction and Proxy Voting Policies
- ▶ Risk Management
- ▶ Compliance
- ▶ Periodic Review - Regulatory and Policy



- ▶ **Asset Allocation**
 - Diversification of Funds
 - Default Funds
- ▶ **Fund Selection Criteria**
 - Risk/Return
 - Investment Fund Evaluation
 - Qualitative Evaluation
 - Quantitative Evaluation
- ▶ **Performance Standards (Net of Fees)**
 - Performance Benchmarks
 - Benchmark Peer Group
- ▶ **Reporting and Monitoring Procedures**
- ▶ **Watch List Criteria**
- ▶ **Retain Fund, Review Fund, Watch List, Terminate, Replace Fund**
 - Ongoing Performance Standards
 - Ongoing Quantitative/Qualitative Standards
- ▶ **Fees**





Performance

- Returns underperform it market benchmark
- Lagging performance versus peer group
- Fund shows style drift for two consecutive quarters
- Risk measures unfavorable

Management

- Material change in the firm
- Portfolio manager change or departure
- Regulatory investigation, litigation, headline risk

Fee change

Asset changes





▶ Investment Policy Statement

- Reviewed and updated annually
- Watch list criteria for all funds
- Specific process to watch, retain, and replace funds

▶ Investment Committee

- Quarterly meetings
- Highly involved individuals
- Meetings have specific agenda set in advance
- Fund and plan due diligence
- Review feedback from participants

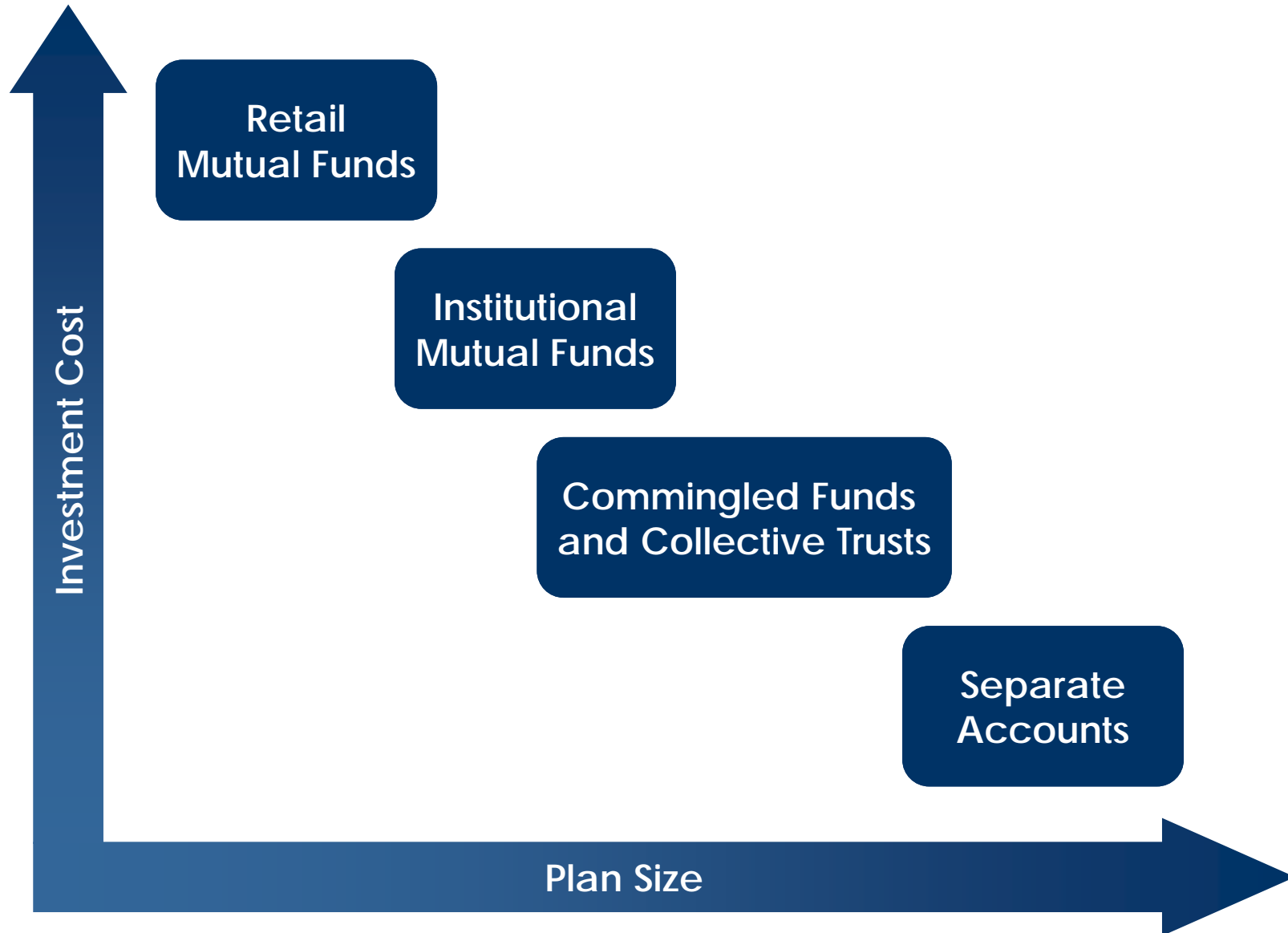




- Plan Sponsor
- Trustee
- Investment Manager
- Plan Administrator
- Deferred Compensation Committee
- Investment Consultant



- ▶ Plan documents to Investment Committee
- ▶ Review and update Investment Committee charter
- ▶ Document Investment Policy Statement
- ▶ Negotiate fees
- ▶ Monitor plan and performance
- ▶ Document minutes, charts, records
- ▶ Benchmark fees, services and providers
- ▶ Document your prudence
 - ▶ Keep minutes, reports, RFP responses, benchmarking studies

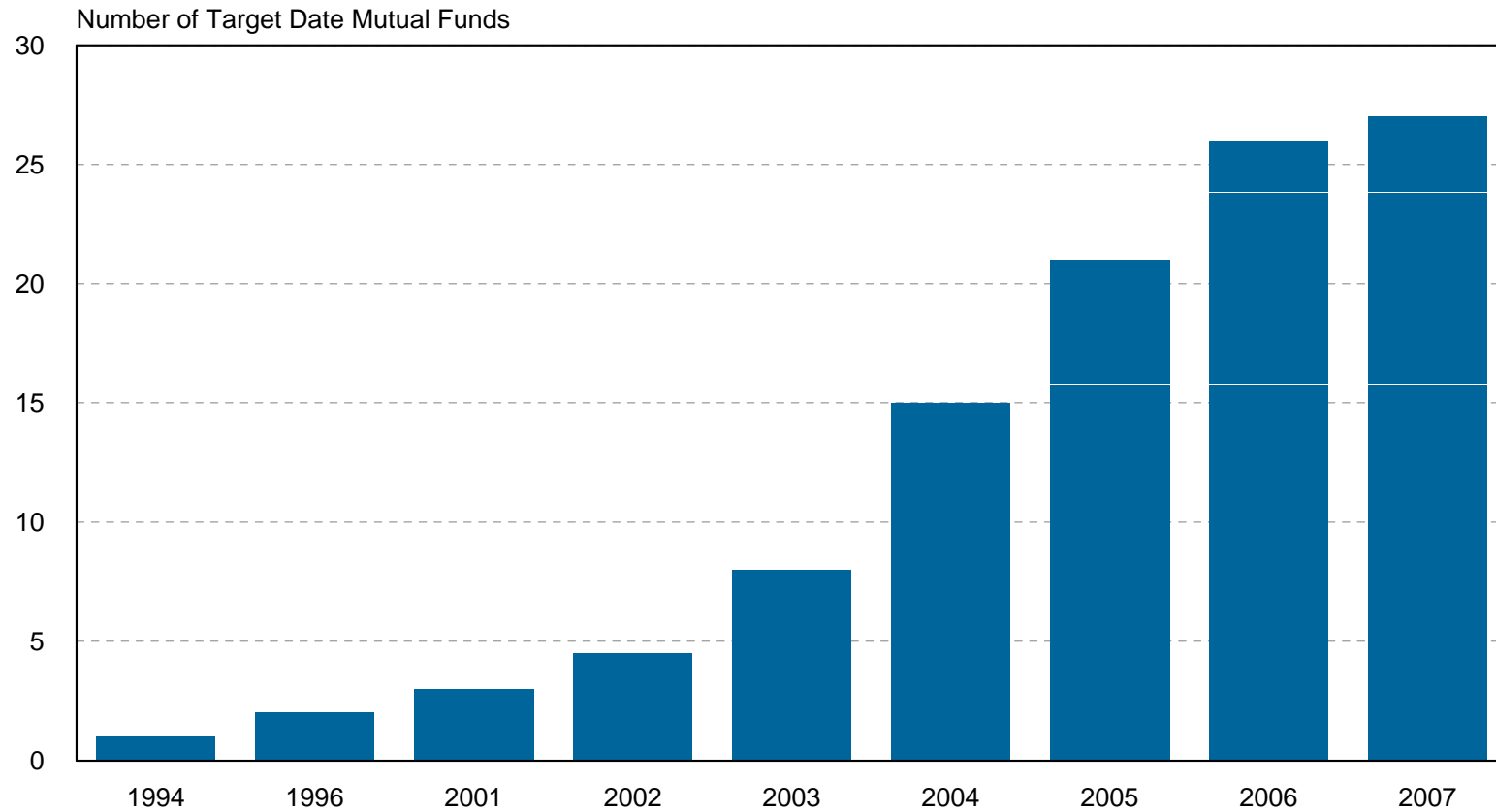




Default Investment Option 2001-2007	Percent of Plans			
	2001	2003	2006	2007
Lifestyle Fund	-	-	-	50%
Money Market	68%	67%	56%	17%
Lifestyle Fund	-	-	-	15%
Balanced Fund	31%	-	39%	13%
Unspecified	1%	-	5%	-
Managed Account	-	-	-	4%
Other	-	-	-	1%
Total Companies Represented	29	66	85	101



Number of Target Date Funds has Grown





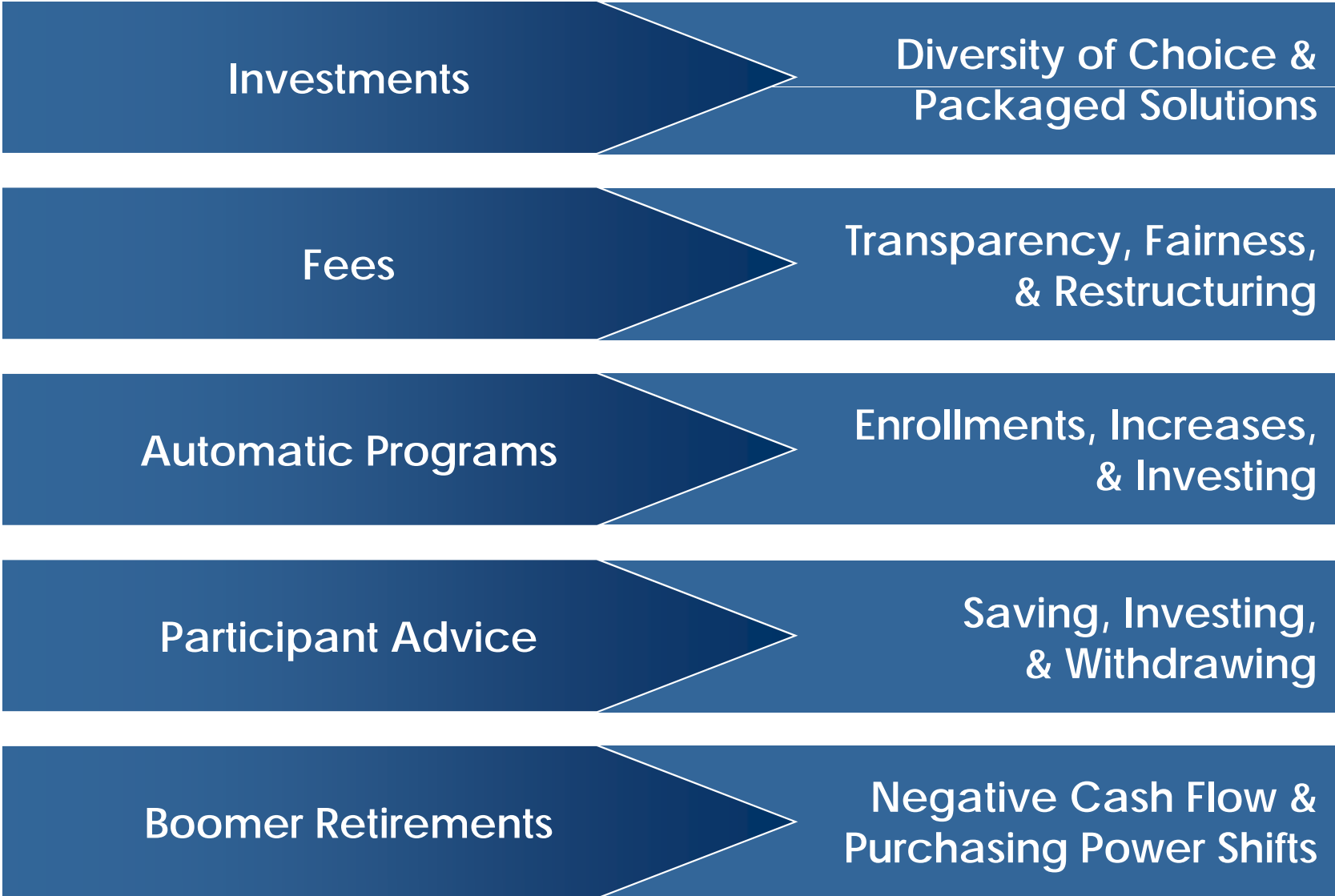
- ▶ **Target Date Funds**
 - ▶ Based on one parameter – retirement date
- ▶ **Managed Accounts use Multiple Parameters**
 - ▶ Risk tolerance
 - ▶ Level of funding
 - ▶ Includes other income sources (SS, DB, annuities)
 - ▶ Includes other retirement assets (IRA, spousal assets)
 - ▶ Includes company stock
 - ▶ Incorporate drawdown or cash needs for retirees



- ▶ **Accommodate full range of funds**
 - ▶ Best of breed managers
 - ▶ Alternative asset classes
 - ▶ REITS
 - ▶ Commodities
 - ▶ Emerging markets
 - ▶ Hedge fund of funds
 - ▶ Independent third party selects managers, fiduciary



- ▶ **Core Investments**
 - ▶ Investment line up representing all asset classes
 - ▶ Low cost investments for fiduciary protection
 - ▶ Institutional Shares
 - ▶ Collective Trusts
 - ▶ Separately Managed Accounts
 - ▶ Indexed Core Investments (Passive)
- ▶ **Packaged Solutions**
 - ▶ Target Date Funds
 - ▶ Fund of Funds
 - ▶ Model Portfolios
 - ▶ Managed Accounts





- ▶ **Brokerage Window**
 - ▶ Mutual Fund Window
 - ▶ Alternative Asset Classes
 - ▶ ETFs
 - ▶ Annuity





- ▶ IPS should reflect IC and Plan sponsor practices
- ▶ IPS should be consistent with Plan document
- ▶ Ensure Plan Document being followed, is updated, has not expired (per DOL)
- ▶ Document process, procedure and decision rationale
- ▶ Use of independent consultant, fiduciary, for investment and due diligence process becoming more critical
- ▶ Develop a Fee Policy Statement with IPS
 - ▶ Participant fee equity



- ▶ **Automatic enrollment**
 - ▶ New or existing participants
 - ▶ Opt-out, re-auto enroll annually or once
- ▶ **Automatic deferral increases**
 - ▶ New or all participants, must opt out
 - ▶ 1% per year up to 6%
- ▶ **Automatic investments**
 - ▶ Qualified default investment alternative (QDIA)
 - ▶ Default fund, target maturity funds, or managed accounts
- ▶ **Plan assets can be used to pay for fiduciary consultants/advisors**



- ▶ **Plan sponsor must qualify the Fiduciary Advisor**
 - ▶ Must have written process for selecting, monitoring, and auditing financial advisor
 - ▶ “Eligible investment advice arrangement” between advisor and plan sponsor must detail
 - ▶ Fiduciary advisor must be affiliated with a RIA, bank, insurance company, broker/dealer yet independent of the plan providers
 - ▶ Cannot sell own firm’s investment products
- ▶ **Financial Advisor must have:**
 - ▶ Eligible investment advice arrangement authorized by plan fiduciary
 - ▶ Submit an annual audit
 - ▶ Provide written disclosures concerning all affiliations, compensation, and services
 - ▶ Structure compensation – level “reasonable” fee
 - ▶ Acknowledge that advisor is acting as a fiduciary



Marlow Kee
Director of Finance



PATH is an international nonprofit organization that improves the health of people around the world.

PATH started in **1977** with a **Ford Foundation grant**. In 2005, total revenue was \$105,403,169.

PATH's Diverse Funding Sources – include the US Government; other governments, other nonprofit organizations, and multilateral agencies such as the World Health Organization; individuals; and interest from investments.

PATH maintains the highest standards for efficiency and transparency

- ▶ **Forbes' Top 200 Charities** - high marks for keeping operating costs low and channeling supporters' investments into the real work of improving global health.
- ▶ **Charity Navigator** (America's largest independent evaluator of nonprofit organizations) - four stars for financial stewardship, fourth consecutive year!



Rank	Charity	Overall Score
1	The National Christian Foundation	69.46
2	American Jewish Joint Distribution Committee	69.21
3	PATH	68.74
4	CARE	68.62
5	Conservation International	67.86
6	Wildlife Conservation Society	67.74
7	The Nature Conservancy	66.04
8	City of Hope and Affiliates	65.69
9	Mayo Foundation	65.62
10	American Red Cross	65.37

www.CharityNavigator.org



To improve the health of
people around the world by
advancing technologies,
strengthening systems,
and encouraging healthy behaviors.



- ▶ Improves accuracy
- ▶ Reduces over-treatment and drug resistance
- ▶ Shortens illness



- ▶ Insecticide-treated nets
- ▶ Indoor residual spraying
- ▶ Malaria in pregnancy
- ▶ Better malaria drugs





▶ Retirement Plan History

- Inception 1981
- Single Defined Contribution Plan
- Money Purchase Pension Plan Transferred into 401(k)
- Default Fund - Primarily Employer % of Salary Contribution
- Adopted Target Date Fund Default Option in 2004



▶ Key Plan Metrics

- \$40 million at 12/31/06
- 17 Core Funds + Target Date Series
- 404 (c) Intent
- Mutual Funds - liquidity, diversification and cost efficiency
 - ▶ at least \$100 million in assets under management
 - ▶ well-diversified (Don't like to see concentrations in a single name, Specialty Funds)
 - ▶ Minimum of 5 years of verifiable investment performance, unless specifically exempted by the Administrative Committee.
- Over 400 participants with balances
- Central Payroll
- World Headquarters in Seattle, WA. Domestic locations include Washington, DC and Bethesda, MD.

- ▶ **Administrative Committee**
 - Fiduciary
 - CEO, CFO, Director of Finance
- ▶ **Investment Advisory Committee**
 - Chair
 - 10 Employee Volunteers
 - Ex-Officio
- ▶ **Investment Consultant**
 - Quarterly Meetings with Investment Advisory Committee and Ongoing Resource
 - Independent, “Prudent Expert” per ERISA
- ▶ **Investment Fund Managers**
 - Actively Managed and Passively Managed
 - Bundled Provider’s Family and Outside
- ▶ **Bundled Provider (Trustee, Recordkeeper)**
- ▶ **Auditor**
- ▶ **Attorney**

9 FACTOR MODEL SUPPORTS REVIEW AND ACTION PROCESS STEPS

1. Performance vs. Investment Objectives as measured versus a Market Index Benchmark for period(s) of 1 year or more
2. Performance vs. Investment Objectives as measured versus a Peer Universe Benchmark for period(s) of 1 year or more
3. Style Drift vs. Investment Objectives – inconsistency of the fund’s investment management process and/or style.
4. Manager Changes – New Portfolio Manager(s) whether individuals, team and/or firm
5. Fund Family Manager Changes - Material change in Management, including Ownership and Firm Fundamentals. Organizational stability.
6. Regulatory Changes – Any anticipated or actual SEC/Other Penalties, Sanctions, Investigations
7. Plan Characteristics – Unique to PATH
8. Fund Operations and Economics – Facts that impact the potential long term success of the fund, e.g. asset size, fees
9. Other – Reasons not detailed above



PROCESS STEPS



- ▶ **Monitoring Procedures**
- ▶ **Watch List Parameters**
- ▶ **Recommended Action List**
- ▶ **Replacement Parameters**
- ▶ **Investment Option Selection Process**
 - Investment Consultant continually repeats a three step process for presentation to the Investment Advisory Committee to assist in investment option monitoring and selection:
 - 1) Screening
 - 2) Scoring
 - 3) Selection
 - Open Architecture Preferred vs. Recommended/Short List – Short List typically reflects highest revenue share, shelf space compensation to vendor



Linda Ruiz-Zaiko
President
Bridgebay Financial, Inc.



Bridgebay
Investment Consulting Services

Ms. Ruiz-Zaiko founded Bridgebay Financial, Inc. in 1987. She has 25 years experience advising institutional clients and corporate retirement plans. Previously at Salomon Brothers, Inc. and Citicorp. She is an author and speaker on qualified plan benchmarking, pension investments, fund/manager selection, custodian and provider evaluations, and plan fee analysis. BA, Case Western Reserve University and MBA, University of California, Berkeley.

Marlow Kee, CPA
Director of Finance
PATH



Marlow Kee, is the Director of Finance for PATH in Seattle. Prior to joining PATH, Marlow was the Director of Finance and Systems at the University of Washington School of Medicine in Seattle. Earlier he was the Executive Director for the Department of Internal Medicine at Washington University in St. Louis. He is a CPA and earned an MBA from the University of Missouri –Columbia. He has over 20 years of experience in the non-profit, university and health care settings. He serves on the Boards of Health Alliance International, Lifelong AIDS Alliance and Village Reach.