MANAGING YOUR INVESTMENT PROGRAM

THE BASICS: A BLUE PRINT FOR SUCCESS

Successfully managing an organization's investment assets is the culmination of various interested parties (both internal and outside vendors) working together to make informed decisions on a timely and efficient basis. Many times human nature, emotions and intense marketing from financial services institutions are all working against the organization in their attempt to preserve investment capital and maximize investment returns.

By following sound decision-making procedures, coupled with utilizing objective expert advice and counsel, in a structure that is efficient from a cost, as well as, an operating basis, the chances of success are actually quite high. What follows is a brief summary of a typical operating structure from a successful investment

Define the Key Roles of all Interested Parties:

- Organization Leadership
- Investment Consultant
- Investment Managers
- Asset Custodian

Develop a Process for Effective Decision Making:

- Leadership
- Investment Committee
- Management

Properly Structure the Investment Program:

- Investment Policy Statement
- Strategic Asset Allocation
- Selection of Investment Managers

Monitoring Results:

- Ongoing Review of Investment Policy / Asset Allocation
- Investment Manager Evaluation (Compliance / Performance)
- Independent Evaluation of Performance & Process

Defining the Roles of all Interested Parties:

There are numerous constituencies which interact during the process of managing an organization's investment assets. Understanding and clearly defining each parties' role, responsibility and expected performance level is crucial. A general lack of clarity of responsibilities and expectations invariably leads to flaws in the investment process that may create noncompetitive investment performance or worse, fiduciary oversight liabilities.

The following is a summary of the roles for the key players in a successful investment structure:

Leadership / Portfolio Sponsor – The leadership of the organization for whom the assets are being managed has two primary responsibilities in the process. First, leadership must be able to clearly articulate the purpose and long-term needs of the portfolio assets. Obviously, all investment portfolios have been established for some purpose. The long-term strategy and structure of the portfolio needs to be consistent with the purpose of the assets. Second, the leadership of the organization is responsible for establishing procedures and protocols whereby the operations of the portfolio are effectively managed, reviewed and monitored on an ongoing basis.

Investment Consultant – The role of an independent consultant is to provide advice and counsel to the leadership of the portfolio's sponsor organization. A consultant's advice should center on the following areas; investment policy statement development, asset allocation strategies, investment manager selection and monitoring and operating cost analysis. The consultant is most effective when he/she is operating on a non-conflicted basis, i.e. is not receiving revenue from any other source than from the client.

Investment Managers – Investment management firms are hired by the organization to act on their behalf on a discretionary basis, when buying and selling individual securities. Investment managers are hired to handle a segment of a portfolio in which they have a particular expertise, i.e. stocks or bonds.

Asset Custodian - A custodian bank is hired to provide recordkeeping and safekeeping services for the organization's investment assets. The bank will settle all securities transactions executed by the investment manager(s), in addition to collecting and posting all earned portfolio income. Monthly statements will be sent to the sponsoring organization, summarized by assets held, and transactions, along with consolidated portfolio reports.

Others - There are numerous other financial services vendors (i.e. stockbrokers, accountants, administrators) involved in the portfolio operations of the typical institution. It should be noted that each of these parties should not be directly involved in the portfolio management operations.

Developing a sense of ownership in the decision making process, by the key players, is a major contributor to successful programs.

Developing a Process for Effective Decision Making:

During the normal course of business, operating an institutional investment portfolio requires numerous ongoing decisions, both from a strategic, as well as, operational or logistical stand point. Organizations with well-run programs usually have developed processes and procedures whereby these decisions are made on an effective and efficient basis. Empowering the right people or committees to make decisions will streamline the process so that the opportunity will always be present for the right decisions to be made at the right time. Delays and/or a lack of clarity surrounding investment related decisions will lead to less than optimal results. Developing a sense of ownership in the decision making process, by the key players, is a major contributor to successful programs.

Listed below are the various parties within an organization that will be called upon to make decisions related to its investment assets. Next to each entity or position we list a summary of the type of decisions they should be empowered to make.

Organization's Leadership:

A. Clearly Articulate the Purpose and Long-Term Needs of the Portfolio Assets

B. Establish Reporting Structure and Protocol for Investment Operations

C. Designate Investment Committee Members

D. Review and Approve/Reject Investment Committee Recommendations.

Investment Committee:

A. Recommend to the Leadership, investment objectives, policies and guidelines that direct the investment activities of the portfolios

B. Develop and recommend to the Leadership, asset allocation, risk parameters and expected returns for the portfolios

C. The investment committee will utilize the direction of the Leadership in terms of purpose and needs for the funds, when determining the time horizon of the investment portfolio

D. Recommend the selection of all outside investment managers, consultants, custodians and brokerage firms engaged to provide investment services to the portfolio

E. Review and evaluate the performance of the manager(s)

F. Monitor manager's compliance with investment policy and guidelines

G. Review all compensation and fee agreements for all investment professionals providing services to the portfolio.

Management:

A. Ongoing contact with all investment professionals that are working on the portfolio

B. Provide ongoing reporting to Leadership

C. Organize the Investment Committee's scheduled meetings, including finalizing the agenda for each meeting;

D. Daily oversight of investment operations, including accounting, custody and proxy management.

Structuring the Investment Program:

There are three critical areas to focus on when establishing an investment program. These are the development of an investment policy statement, establishing strategic asset allocation targets and policy, and lastly, the selection of investment managers and asset custodian. Although all of these activities are interrelated, all should be approached from an individual perspective when the investment portfolio is initially being structured. During the process of structuring the portfolio, expectations in terms of the desired outcome from the portfolio management process should be clearly delineated. Unrealistic or inconsistent expectations will lead to poor management decisions.

The following are items to consider when addressing each of the primary categories:

1. Investment Policy Statement

A. Clearly state the purpose of the investment assets that are being managed.

B. Designate the responsibilities of the Organization's Leadership, Investment Committee, Management, and Outside Advisors as they relate to the portfolio.

C. Establish overall risk / return expectations.

D. Include asset allocation targets and acceptable ranges.

E. Develop investment guidelines for each asset class that will be utilized by the investment managers. Include performance benchmarks, as well as, risk controls.

2. Strategic Asset Allocation

A. Utilize the direction from the Organization's Leadership regarding the purpose and needs for the portfolio assets in order to develop an investment time horizon.

B. Once the time horizon is established, an asset allocation strategy can be developed which utilizes a combination of assets that maximizes the risk / return profile for the portfolio.

C. Special attention should be given to the liquidity demands of the organization. For instance, money that may be needed in the short-term (less than two years) shouldn't be allocated to long duration assets that may exhibit high degrees of volatility.

D. Expectations of overall portfolio volatility should be reviewed, such that "no surprises" occur during periods of high market volatility.

E. Lastly, an overall long-term expected rate of return for the portfolio should be developed. This rate should be compared to the overall needs of the organization to insure consistency with the overall goal for the portfolio assets.

3. Selection of Investment Managers

A. Managers should be selected based on their expertise to manage specific asset classes that are part of an organization's overall strategic asset allocation plan. Specialist managers generally are most effective, although there are many firms with multi-class product expertise.

B. In reviewing potential manager candidates, a thorough review of their key personnel, investment process, and performance should be conducted. Managers should not be selected merely on the strength of recent performance. A manager's "style" of management should be consistent with the investment philosophy as defined in the organization's investment policy statement.

C. The proposed management fees should be scrutinized closely for any potential manager that an organization chooses to hire. Investment management firms should only be hired if their fees are clearly stated, and are competitive with their respective peer group.

Monitoring the Results of an Investment Program:

Once an institutional investment portfolio is structured, in order to remain competitive, ongoing oversight becomes critical. Many of the factors that were addressed in the initial structuring of the portfolio (i.e. investment policy, asset allocation, manager selection) all need to be monitored in some fashion. This ongoing monitoring process is the responsibility of the organization's management staff in conjunction with the investment committee. Monitoring the various components of the investment program includes the following tasks:

- The Organization's Leadership should apprise the investment committee of material changes in the organization's demands or needs for the investment portfolio. A significant change, can dictate a change in the overall strategy for the portfolio assets.

- The investment committee must have an established protocol in order to systematically monitor the performance of the overall portfolio as well as the individual managers. Investment performance of the total portfolio should be viewed versus the overall goal of the portfolio. The performance of the individual investment managers should be compared with the performance benchmarks designated in the investment policy statement. This type of analysis should be completed on a quarterly basis. A thorough review of the performance results should be completed no less than on a semi-annual basis.

- The management staff of the organization needs to ensure that the portfolios are operating within the guidelines of the policy.

- The investment committee and management staff should rely on an independent investment consultant for the review of performance and policy compliance, unless they have sufficient expertise internally.

- The investment policy statement and strategic asset allocation plan need to be reviewed on a regular basis. Updates or adjustments may be warranted if significant changes have occurred at the organizational level or within the general investment market conditions.

Good structure and strategy are lost without good execution. High fees are the enemy of good performance.

Concord is happy to discuss best practices for investment programs and answer any question you may have.

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