



# TREASURY RESOURCES

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At the 2003 Investment Management for Institutional Investors Conference

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GLOBAL LEADERS IN MULTI-MANAGER INVESTING



## **Setting Investment Policy and Guidelines**

*Investment Management for Institutional Investors Conference  
November 2003*

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Specific sector funds can be subject to different and greater risks than more diversified funds.

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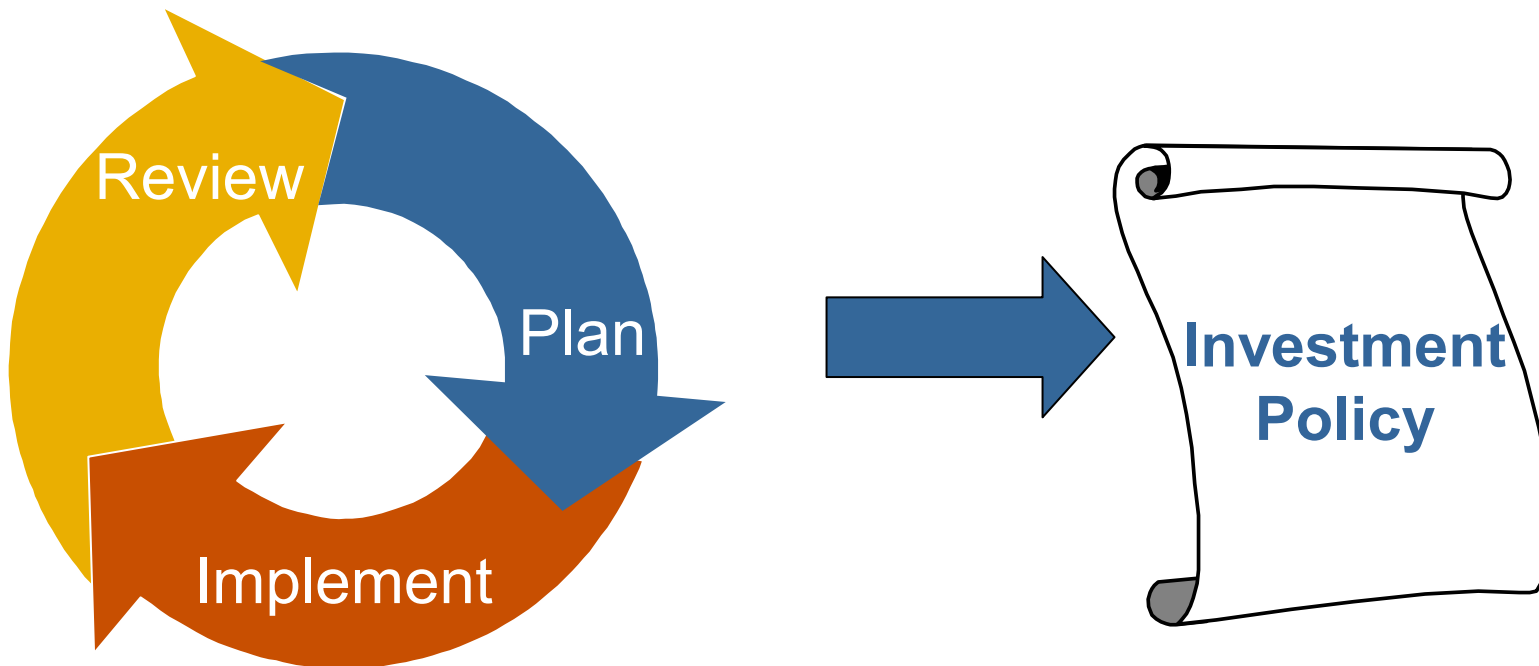
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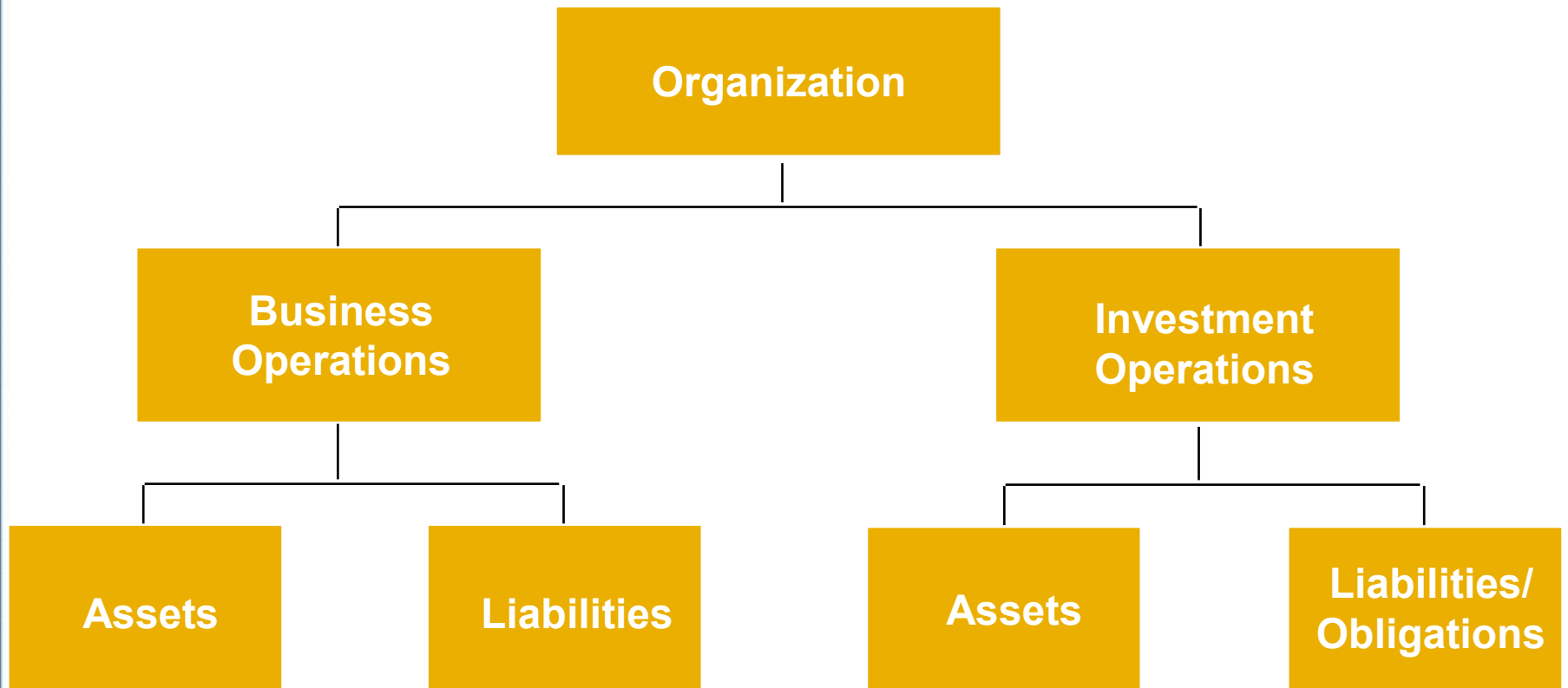
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# Are actions consistent with policies?



# Investment fund is a significant operation



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# Basic elements of the investment policy

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- **Who are we?**
  - Key decision-makers
  - Roles and responsibilities
- **What do we believe?**
  - Investment objectives
  - Asset allocation framework
  - Asset class guidelines
- **What is acceptable?**
  - Basic considerations regarding cash flow, spending policy, liquidity and volatility of returns
  - Basic guidelines regarding acceptable investments and investment strategies

# Example of an investment policy statement

Scope of policy

Purpose of assets

Investment philosophy

Investment objectives

Policy asset allocation and ranges

Performance benchmarks and objectives

Diversification guidelines

Individual asset classes

- equity
- fixed income
- real estate
- private equity
- currency
- cash and other

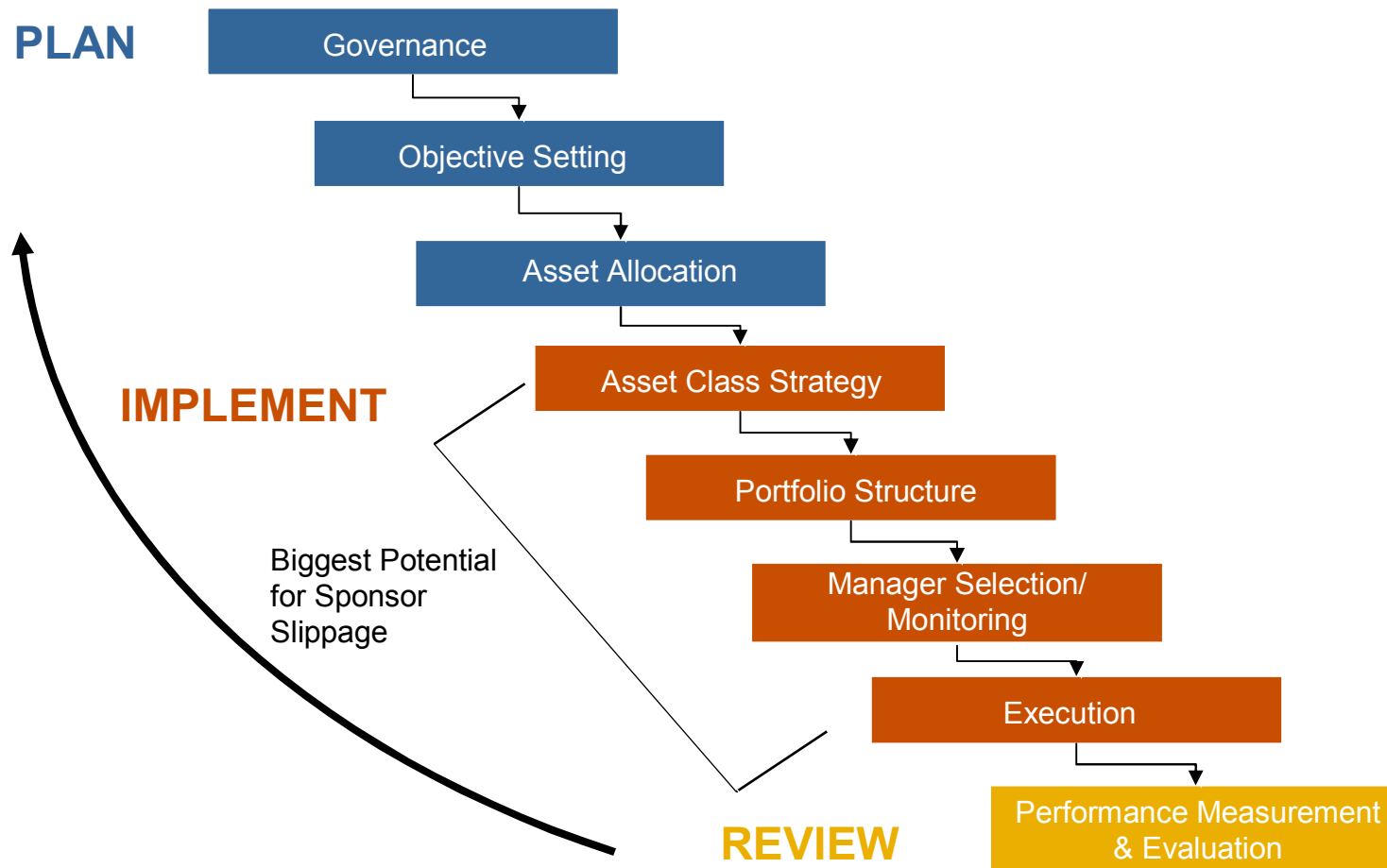
Manager selection guidelines

Monitoring process

- reporting
- auditing

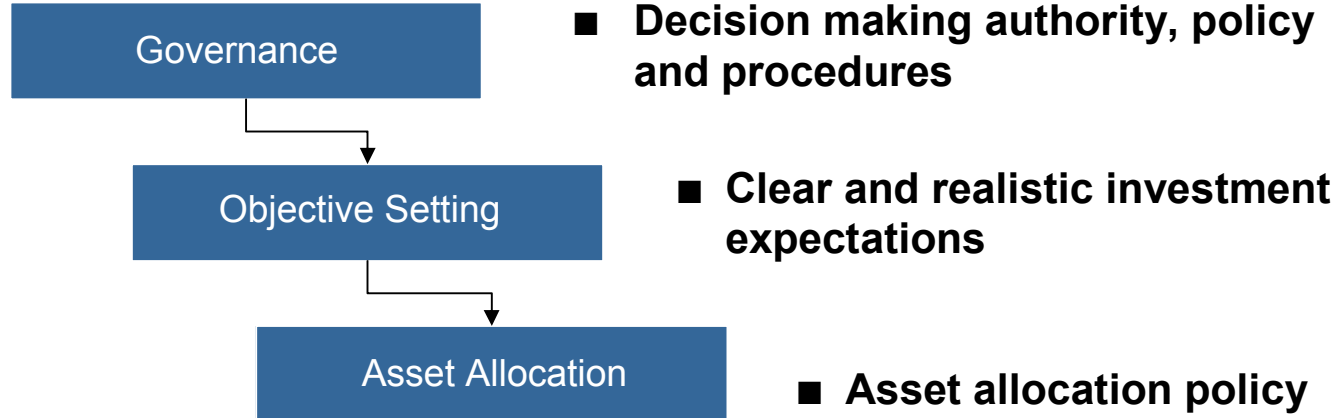
Proxy voting

# The fiduciary cycle in detail

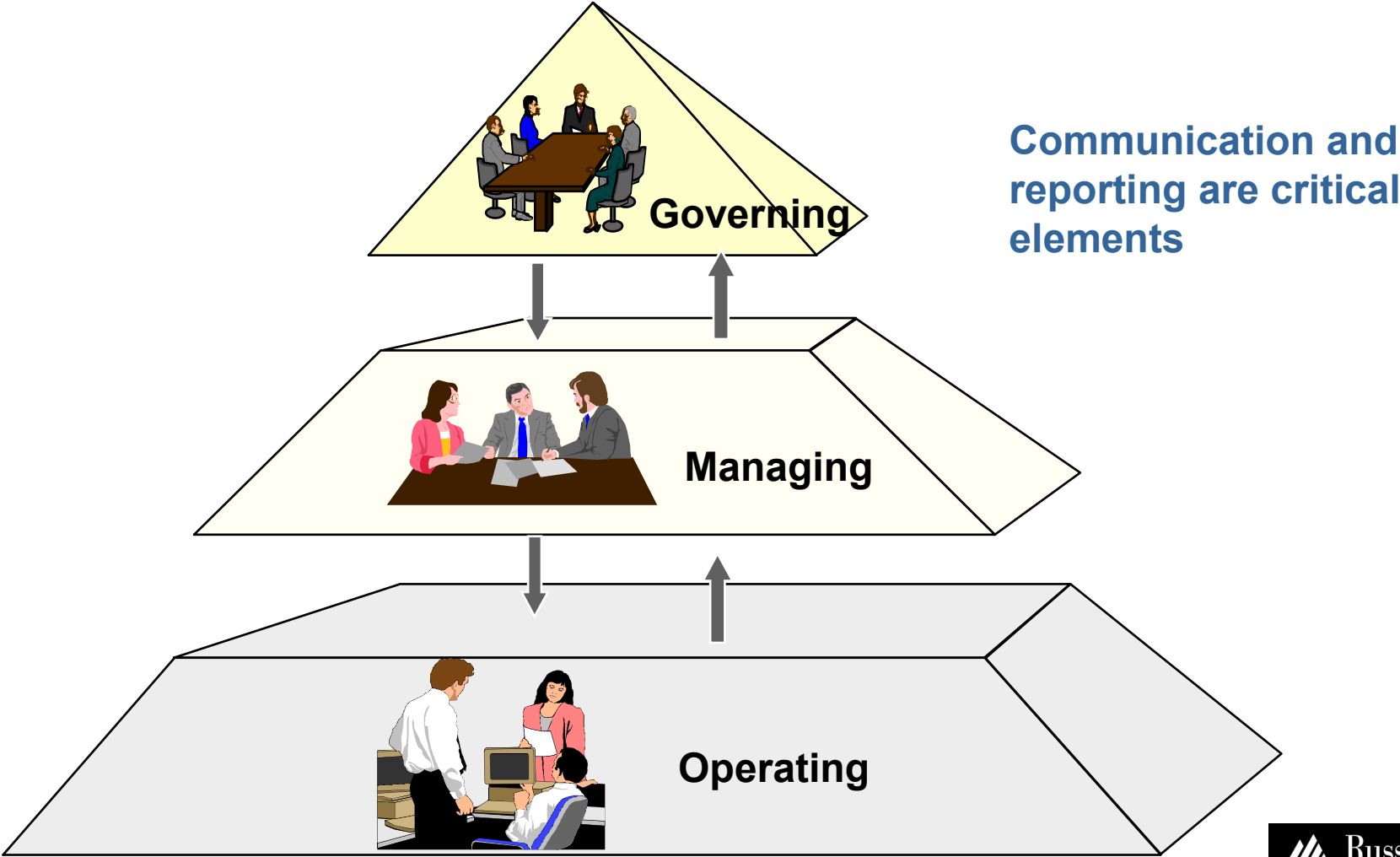


# Planning the cornerstone for best results

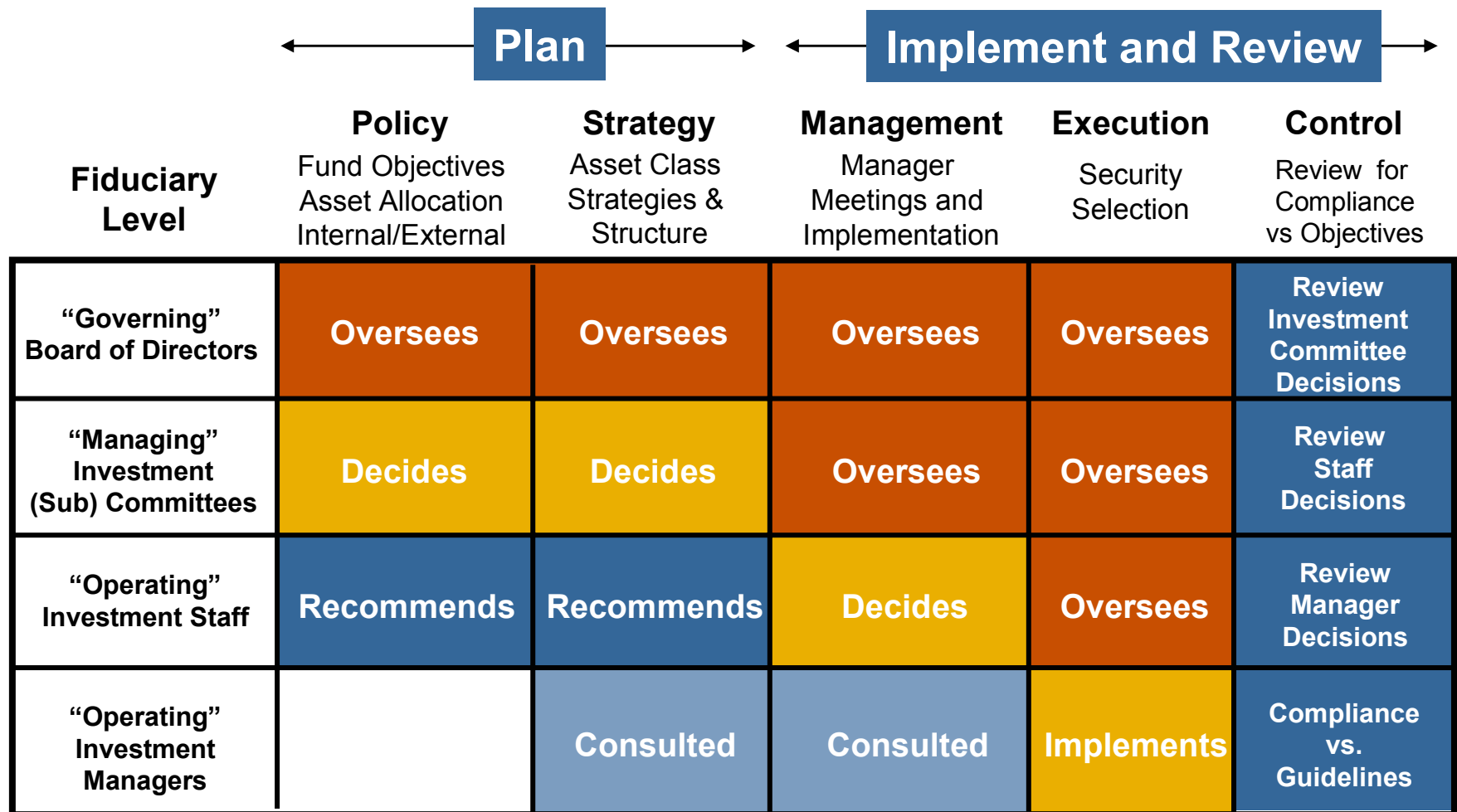
PLAN



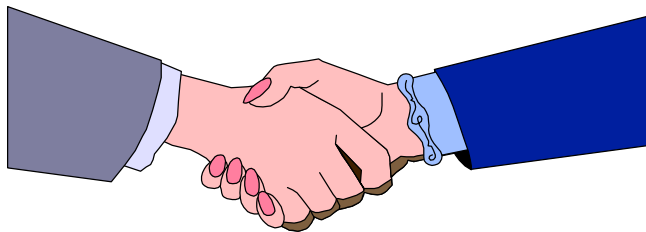
# Roles of the three types of fiduciaries



# Roles and responsibilities

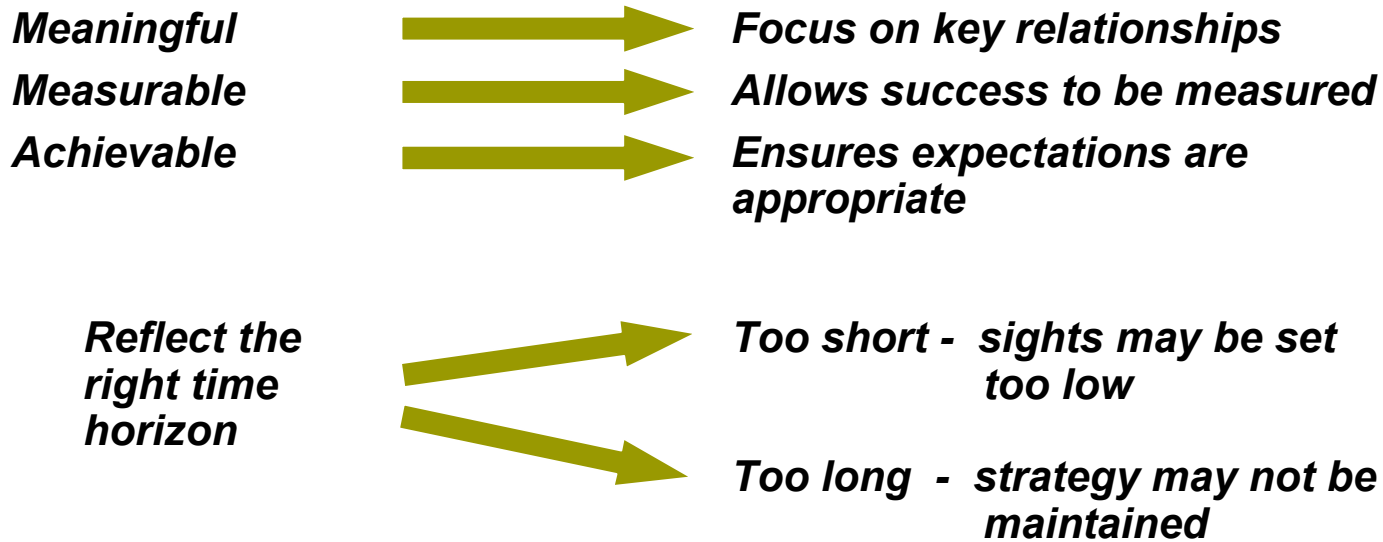


# Objectives lay the groundwork



- **Focus on key priorities**
- **Minimize ad-hoc revisions**
- **Provides continuity and discipline through difficult periods**
- **Demonstrates clear thinking and planning**
- **Communicates to all fiduciaries**
- **Review annually**

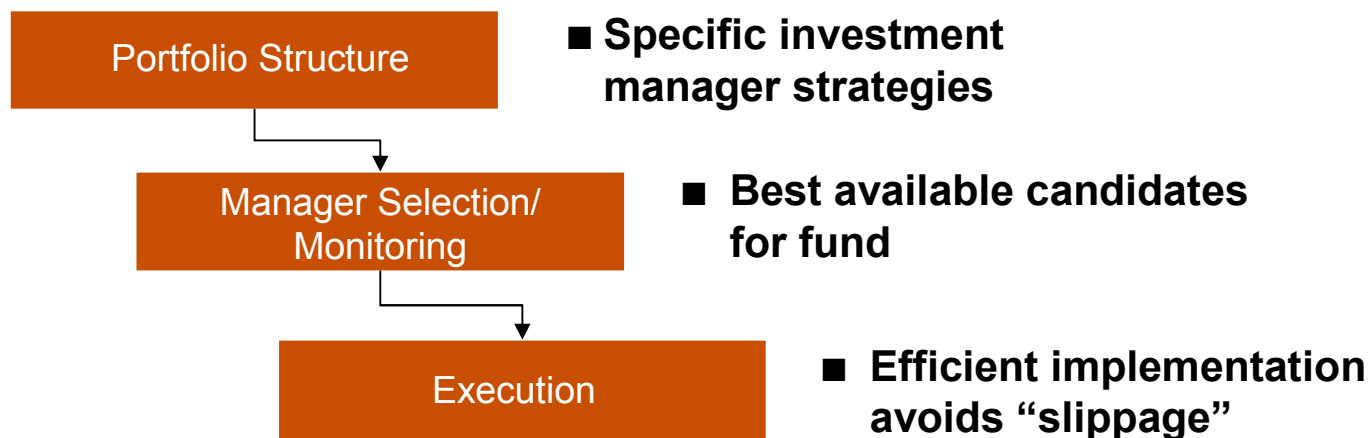
# Clarifying objectives is a valuable journey



***Asset allocation the chief expression of risk tolerance!***

# Effective implementation critical

## IMPLEMENT



# Asset class selection specific to objectives

## Primary Asset Classes

Equity

Fixed Income

Real Estate

Other Strategies

## Sub-Asset Classes

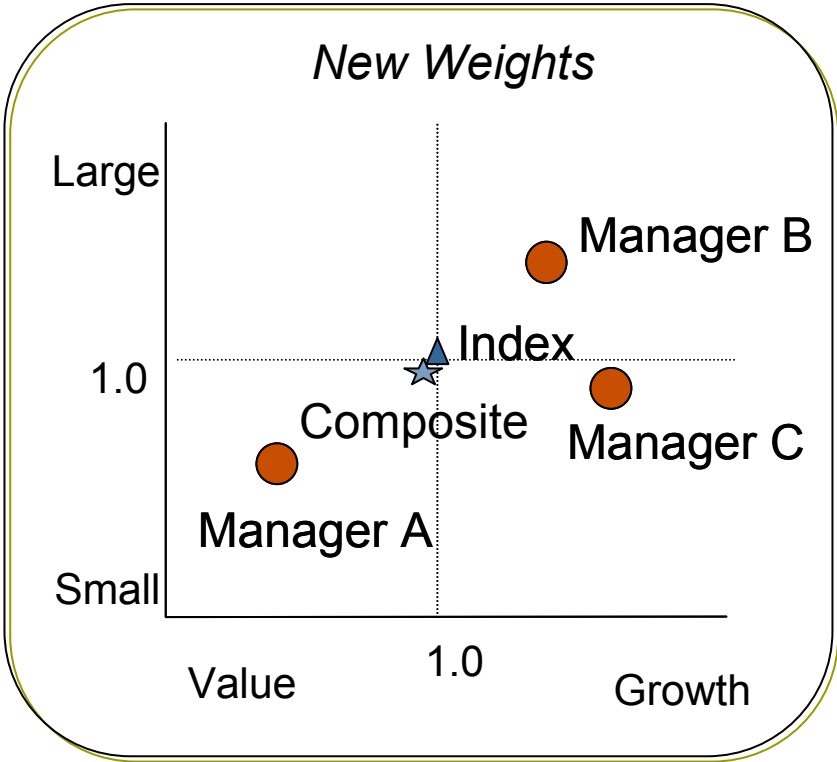
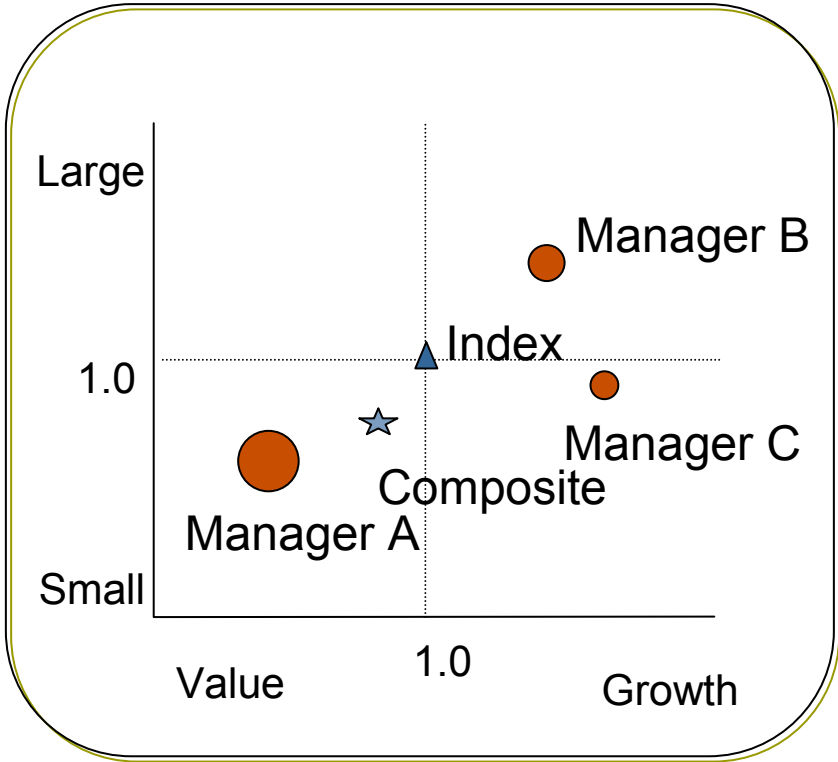
Large Cap  
Small Cap  
Private Equity  
Developed Non-US Equity  
Emerging Markets  
Currency

US Fixed Income  
Non-US Fixed Income  
High-Yield Fixed Income  
Emerging-Market Debt

Public  
Private

Hedge Funds, Commodities,  
Resource based, Market Neutral  
Managed futures

# Understand and manage broad market bets



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# Checklist for asset class strategy/structure

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- ✓ **Affirm intended structure/strategy**
- ✓ **Document objectives and tilts and biases, if any**
- ✓ **Monitor and manage undesired structural bets**
- ✓ **Establish review procedures**

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# Checklist for manager selection/monitoring

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- ✓ Hire/Retain only high confidence firms
- ✓ Document expectations
- ✓ Monitor for compliance
- ✓ Develop formal process for underperforming strategies

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# Checklist for execution/trading

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- ✓ **Document fund and manager guidelines**
- ✓ **Define rebalancing policy**
- ✓ **Develop effective transition strategies (portfolio changes and rebalancing)**
- ✓ **Establish compliance procedures for trading**
- ✓ **Managing Slippage**

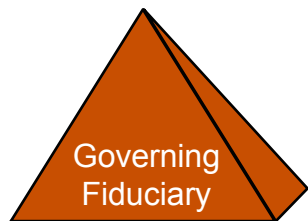
# Review strategies relative to objectives

## REVIEW

Performance Measurement  
& Evaluation

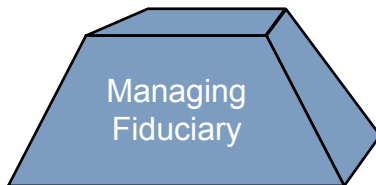
- Evaluating results vs. objectives and benchmarks

# Reporting should target fiduciary's needs



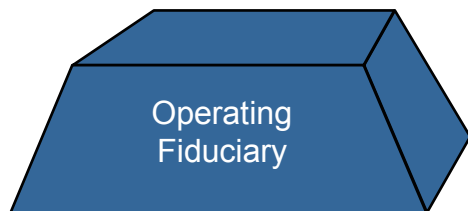
## “Top Line Summary”

- Compliance to standards and objectives
- Reality check on oversight
- Results versus objectives



## “Decision-Making Summary”

- Confirm or modify plan policies and guidelines
- Reality check on operations
- Performance - asset class and strategies
- Investment manager review and analysis



## “Implementation Summary”

- Agent oversight
- Due diligence of implementation procedures
- Performance - manager based

# Integrating policy and investment program

- **Clearly written statement**
- **Asset allocation policy mix consistent with objectives**
  - Rebalancing ranges
  - Acceptable asset classes
- **Effective benchmarks**
- **Accountability**

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# **Investment policies are dynamic tools...**

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**The named fiduciary *owns* the investment policy of the fund, written and implemented...**

**therefore, part of the process is to change them as necessary**

- **New spending obligations**
- **Different risk tolerance or funding objectives**
- **New Board Members/Fiduciaries**
- **Evolving capital markets**



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1999 Amsterdam

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