Prudent Practices for Investment Stewards

Step 1: Organize

***Practice 1.1 -** The Investment Steward demonstrates an awareness of fiduciary duties and responsibilities.*

Criteria:
1.1.1 — The Investment Steward complies with all fiduciary laws and rules that apply to the Steward's responsibilities.
1.1.2 — The Investment Steward complies with all applicable Practices and Procedures defined in this Prudent Practices handbook.
1.1.3 — The Investment Steward adheres to the professional standards of conduct and code(s) of ethics required by law, regulation, their organization or employer, and all applicable organizations in which they are a member.

***Practice 1.2** — Investments and investment services under the oversight of the Investment Steward are consistent with applicable governing documents.*

Criteria:
1.2.1 Investments held in trust are managed in accordance with the documents governing the trust.
1.2.2 Investments are managed and investment services are retained in accordance with governing documents, including the investment policy statement.
1.2.3 Documents pertaining to the investment management process, including records of decisions made by the Investment Steward, are organized and retained in a centralized location.

***Practice 1.3** — The roles and responsibilities of all involved parties (fiduciaries and non-fiduciaries) are defined and documented.*

Criteria:
1.3.1 The roles and responsibilities of all involved parties are documented in the investment policy statement.
1.3.2 All involved parties have acknowledged their fiduciary or non-fiduciary status in writing.
1.3.3 Investment committees have a defined set of by-laws or operating procedures to which they adhere.
1.3.4 The Investment Steward has a documented disaster recovery plan that is reviewed and tested periodically.

***Practice 1.4** — The Investment Steward identifies conflicts of interest and addresses conflicts in a manner consistent with the duty of loyalty.*

Criteria:
1.4.1 Policies and procedures for overseeing and managing conflicts of interest, including self-dealing, are defined.
1.4.2 Conflicts of interest are avoided when possible and always when required by law, regulation, and/or governing documents.

1.4.3 The Investment Steward discloses, and requires service providers to disclose, all unavoidable conflicts of interest in writing and to manage such unavoidable conflicts in the best interest of the participants or beneficiaries.

Practice 1.5 *— The Investment Steward requires agreements with service providers to be in writing and consistent with fiduciary standards of care.*

Criteria:
1.5.1 The Investment Steward requires each service provider to make full written disclosure of the services to be provided and the compensation arrangements, affiliations, and fiduciary status of the service provider.
1.5.2 Agreements are periodically reviewed to ensure consistency with the objectives of the investment portfolio and/or the needs of beneficiaries.
1.5.3 Comparative reviews of service agreements are conducted and documented approximately every three years.

Practice 1.6 *— Portfolio assets are protected from theft and embezzlement.*

Criteria:
1.6.1 The Investment Steward has a reasonable basis to believe assets are within the jurisdiction of a viable judicial system.
1.6.2 ERISA fiduciaries have the required fidelity bond, if applicable.
1.6.3 The Investment Steward ensures that appropriate insurance, internal controls, and physical security measures reasonably protect against theft and embezzlement.
1.6.4 The Investment Steward verifies that service providers that custody assets have appropriate insurance.
1.6.5 Appropriate procedures are in place to secure beneficiary or plan data.

Step 2: Formalize

Practice 2.1 *— An investment time horizon has been identified for each investment portfolio.*

Criteria:
2.1.1 Sources, timing, distribution, and uses of portfolio cash flows are documented.
2.1.2 In the case of a defined benefit retirement plan, an appropriate asset/liability study has been factored into the time horizon.
2.1.3 In the case of a defined contribution retirement plan, the investment options provide for a reasonable range of participant time horizons.
2.1.4 In the case of a foundation or endowment, a schedule of expected receipts and disbursements of gifts and grants has been factored into the time horizon to the extent possible and an estimated equilibrium spending rate has been established.
2.1.5 In the case of a trust or retail investor portfolio, an appropriate needs-based analysis has been factored into the time horizon.

Practice 2.2 *— An appropriate risk level has been identified for the portfolio.*

Criteria:
2.2.1 The level of volatility the portfolio is exposed to is understood by the Investment Steward, and the quantitative and qualitative factors that were considered are documented.
2.2.2 "Large loss" scenarios have been identified and considered in establishing the risk tolerance level of the portfolio.
2.2.3 Expected disbursement obligations and contingency plans have been considered in order to establish liquidity requirements for the portfolio.
2.2.4 In the case of a defined contribution retirement plan, the investment options provide for a reasonable range of participant risk tolerance levels.

Practice 2.3 *— An expected return to meet each investment objective for the portfolio has been identified.*

Criteria:
2.3.1 The expected return for each portfolio is consistent with the risk level and investment goals and objectives established for the portfolio.
2.3.2 The expected return assumptions for each asset class are based on reasonable risk-premium assumptions.
2.3.3 For defined benefit plans, the expected return values used for modeling are reasonable and are also used for actuarial calculations.
2.3.4 For defined contribution plans, the expected return assumptions for pre-diversified options, such as target date funds or model portfolios, are based on reasonable risk/premium assumptions.
2.3.5 For endowments and foundations, the expected return values used for modeling are reasonable and are consistent with distribution requirements or the projected equilibrium spending rate.

Practice 2.4 *— Selected asset classes are consistent with the portfolio's time horizon and risk and return objectives.*

Criteria:
2.4.1 Assets are appropriately diversified to conform to the portfolio's time horizon and risk/return profile and to reduce non-systemic risk.
2.4.2 For participant-directed plans, selected asset classes provide each participant the ability to diversify their portfolio appropriately given their time horizon and risk/return profile.
2.4.3 The Investment Steward, either directly or with the support of a designated service provider, assures that the methodology and tools used to establish appropriate portfolio diversification are prudent and consistently applied.

***Practices 2.5** — Selected asset classes are consistent with implementation and monitoring constraints.*

Criteria:
2.5.1 The Investment Steward, either directly or with the support of a designated service provider, has the time, resources, and requisite knowledge and skills to implement and monitor all selected asset classes for the portfolio.
2.5.2 The process and tools used to implement and monitor investments in the selected asset classes are appropriate.
2.5.3 Appropriate investment products are accessible within each selected asset class.

***Practice 2.6** — The investment policy statement contains sufficient detail to define, implement, and monitor the portfolio's investment strategy.*

Criteria:
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.

***Practice 2.7** — When socially responsible investment strategies are elected, the strategies are structured appropriately.*

Criteria:
2.7.1 The goals and objectives established for the portfolio are evaluated to determine whether socially responsible investing is appropriate and/or desirable.
2.7.2 If a socially responsible investment strategy is elected, the investment policy statement documents the strategy, including appropriate implementation and monitoring procedures.

Step 3: Implement

***Practice 3.1** — A reasonable due diligence process is followed to select each service provider in a manner consistent with obligations of care.*

Criteria:
3.1.1 Reasonable criteria are identified for each due diligence process used to select service providers.
3.1.2 The due diligence process used to select each service provider is documented.
3.1.3 Each due diligence process used to select service providers is consistently applied.

Practice 3.2 *— When statutory or regulatory investment safe harbors are elected, each investment strategy is implemented in compliance with the applicable provisions.*

Criteria:

3.2.1 Applicable ERISA safe harbor requirements pertaining to the delegation of investment responsibility are implemented in compliance with regulatory requirements, when elected.
3.2.2 For participant-directed qualified retirement plans, applicable 404(c) safe harbor requirements are implemented in compliance with ERISA requirements, when elected.
3.2.3 For participant-directed qualified retirement plans, applicable fiduciary adviser safe harbor requirements are implemented in compliance with ERISA requirements, when elected.
3.2.4 For participant-directed qualified retirement plans, qualified default investment alternatives (QDIA) are implemented in compliance with ERISA requirements, when elected.
3.2.5 For non-ERISA services, safe harbors and exemptions are implemented in compliance with regulatory requirements, when elected.

Practice 3.3 *— Decisions regarding investment strategies and types of investments are documented and made in accordance with fiduciary obligations of care.*

Criteria:

3.3.1 A documented due diligence process, consistent with prudent practices and generally accepted investment theories, is used to select investments and third-party Investment Managers.
3.3.2 Decisions regarding the selection of investments consider both qualitative and quantitative criteria.
3.3.3 The documented due diligence process used to select investments and third-party Investment Managers is consistently applied.
3.3.4 Regulated investments are preferred over unregulated investments when all other characteristics are comparable.
3.3.5 Investments that are covered by readily available data sources are preferred over similar investments for which limited coverage is available when all other characteristics are comparable.
3.3.6 Decisions regarding passive and active investment strategies are documented and made in accordance with obligations of care.
3.3.7 Decisions regarding the use of separately managed and commingled accounts, such as mutual funds, unit trusts, exchange-traded products, and limited partnerships, are documented and made in accordance with obligations of care.
3.3.8 Decisions to use complex investments or strategies, such as alternative investments or strategies involving derivatives, are supported by documentation of specialized due diligence conducted by individuals who possess knowledge and skills needed to satisfy the heightened obligations of care.
3.3.9 When socially responsible investment strategies are elected, the strategies are implemented appropriately.

Step 4: Monitor

***Practice 4.1** — Periodic reports are used to compare investment performance against appropriate index, peer group, and investment policy statement objectives.*

Criteria:
4.1.1 The performance of each investment option is periodically compared against an appropriate index, peer group, and any other performance-related due diligence criteria defined in the investment policy statement.
4.1.2 "Watch list" procedures for underperforming Investment Managers are documented, and consistently applied.
4.1.3 Rebalancing procedures are reasonable, documented, and consistently applied.

***Practice 4.2** — Periodic reviews are made of qualitative and/or organizational changes of Investment Advisors, Investment Managers, and other service providers.*

Criteria:
4.2.1 Periodic evaluations of the qualitative factors that may impact the results or reliability of Investment Advisors, Investment Managers, and other service providers are performed.
4.2.2 Negative news and other material information regarding an Investment Advisor, Investment Manager, or other service provider are considered and acted on in a timely manner.
4.2.3 Deliberations and decisions regarding the retention or dismissal of Investment Advisors, Investment Managers, and other service providers are documented.
4.2.4 Qualitative factors that may impact service providers are considered in the contract review process.

***Practice 4.3** — Control procedures are in place to periodically review policies for trading practices and proxy voting.*

Criteria:
4.3.1 Control procedures are in place to periodically review each Investment Manager's policies for best execution.
4.3.2 Control procedures are in place to periodically review each Investment Manager's policies for special trading practices such as "soft dollars", directed brokerage, and commission recapture.
4.3.3 Control procedures are in place to periodically review each Investment Manager's policies for proxy voting.

***Practice 4.4** — Periodic reviews are conducted to ensure that investment-related fees, compensation and expenses are fair and reasonable for the services provided.*

Criteria:
4.4.1 A summary of all parties being compensated from the portfolio or from plan or trust assets and the amount of compensation has been documented.
4.4.2 Fees, compensation, and expenses paid from the portfolio or from plan or trust assets are periodically reviewed to ensure consistency with all applicable laws, regulations, and service agreements.

4.4.3 Fees, compensation, and expenses paid from the portfolio or from plan or trust assets are periodically reviewed to ensure such costs are fair and reasonable based upon the services rendered and the size and complexity of the portfolio or plan.

Practice 4.5 *— There is a process to periodically review the Steward's effectiveness in meeting its fiduciary responsibilities.*

Criteria:

4.5.1 Fiduciary assessments are conducted at planned intervals to determine whether (a) appropriate policies and procedures are in place to address all fiduciary obligations, (b) such policies and procedures are effectively implemented and maintained, and (c) the investment policy statement is reviewed at least annually.

4.5.2 Fiduciary assessments are conducted in a manner that promotes objective analysis and results are documented and reviewed for reasonableness.