



**UBS Institutional
Consulting Group**

Establishing a Pension Investment Policy Investment Guidelines

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**Elaina S. Spilove, CIMA ©
Senior Institutional Consultant
Senior Vice President – Investments
UBS Institutional Consulting – Philadelphia, PA**

Establishing a Pension Investment Policy – Investment Guidelines

Table of Contents

Section I	Introduction
Section II	Scope of Investment Policy
Section III	Investment Policy Checklist
Section IV	Investment Policy Appendices
Section V	Summary

"A written investment policy statement is the single most important element in a public funds investment program".....GFOA (Government Finance Officers Association)

I. Introduction

- Concrete Statement of Investment Goals
- Investment Philosophy & Risk Tolerance
- Demonstration of Due Diligence/Fiduciary Responsibility
- Guidance and Compliance
- Risk Management Tool
- Communication for Education

II. Scope of an Investment Policy Statement



Scope of an Investment Policy



- Statement of investment philosophy
- Prioritization of investment goals

Scope of an Investment Policy



- Duties of the pension board
- Duties of Staff (delegation)
- Duties of third parties (delegation)

Scope of an Investment Policy

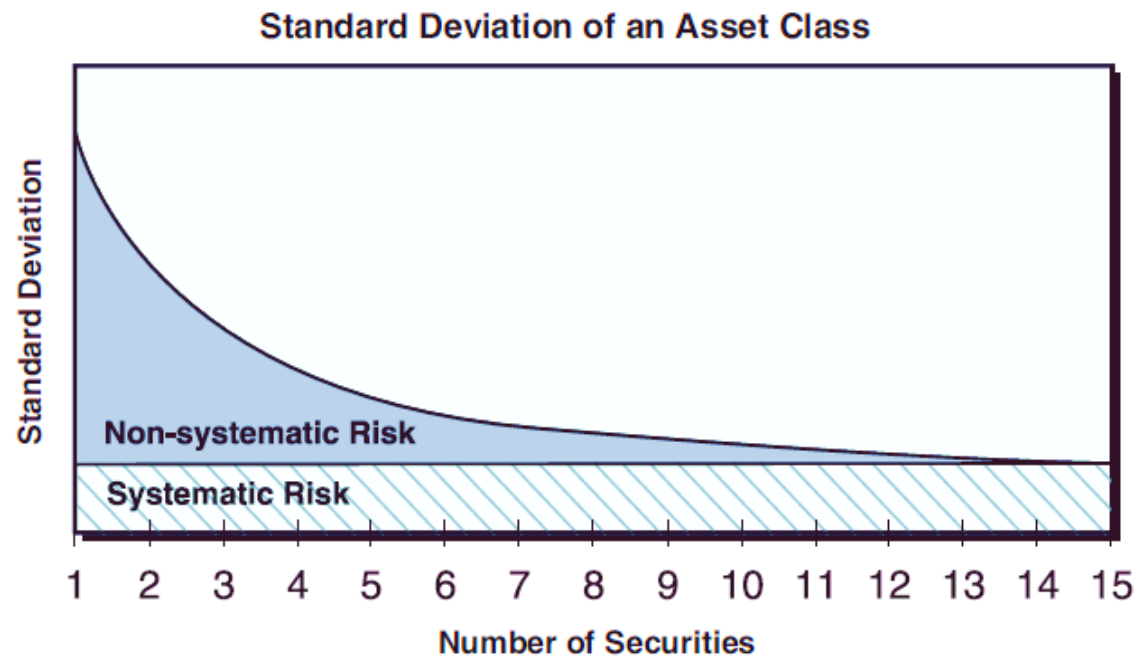


- Asset allocation targets
- Asset allocation ranges
- Guidelines on alternative investments
- Rebalancing guidelines

ASSET CLASS	ALLOWABLE RANGE	TARGET ALLOCATION
Global Equities	20-50%	40%
Fixed Income	35-70%	45%
Real Assets	0-10%	5%
Alternative Investments	0-15%	10%
Cash Equivalents	0-100%	0-100%

Integrating Asset Allocation Strategy

- Policy must be developed within framework of legal restrictions
 - Restrictions set forth by:
 - State & Local Statutes
 - Common Law
 - Fiduciary Standards
- Policy should be viewed as a long-term governing document



Integrating Asset Allocation Strategy

- Types of risk:
 - Unsystematic - specific risk, single security, residual risk - can be reduced through diversification
 - Systematic – market risk, undiversifiable – manages risk but does not eliminate

Scope of an Investment Policy



- Allowable investment types/strategies listed
- Prohibited investment types/strategies listed
- Limitation on derivatives
- Limitation on market timing
- Diversification within asset classes

Scope of an Investment Policy

- Performance measures for the portfolio
- Relative to inflation
- Relative to actuarial assumptions
- Relative to index
- Relative to DB pension universe
- Performance measures for each asset class
- Performance measures for each manager
- Performance measures in relations to a group of managers
- Performance measures in relation to index
- Performance Net of Fees



Scope of an Investment Policy



- Selection criteria
- Manager watch list/termination guidelines

Scope of an Investment Policy



- Custodians
- Investment consultants
- Actuaries
- Attorneys
- Accounting professionals

Scope of an Investment Policy



- Exclusive benefit principal
- Collateral benefits/ETI
- Prudent person
- Prudent expert
- Prudent investor

Scope of an Investment Policy



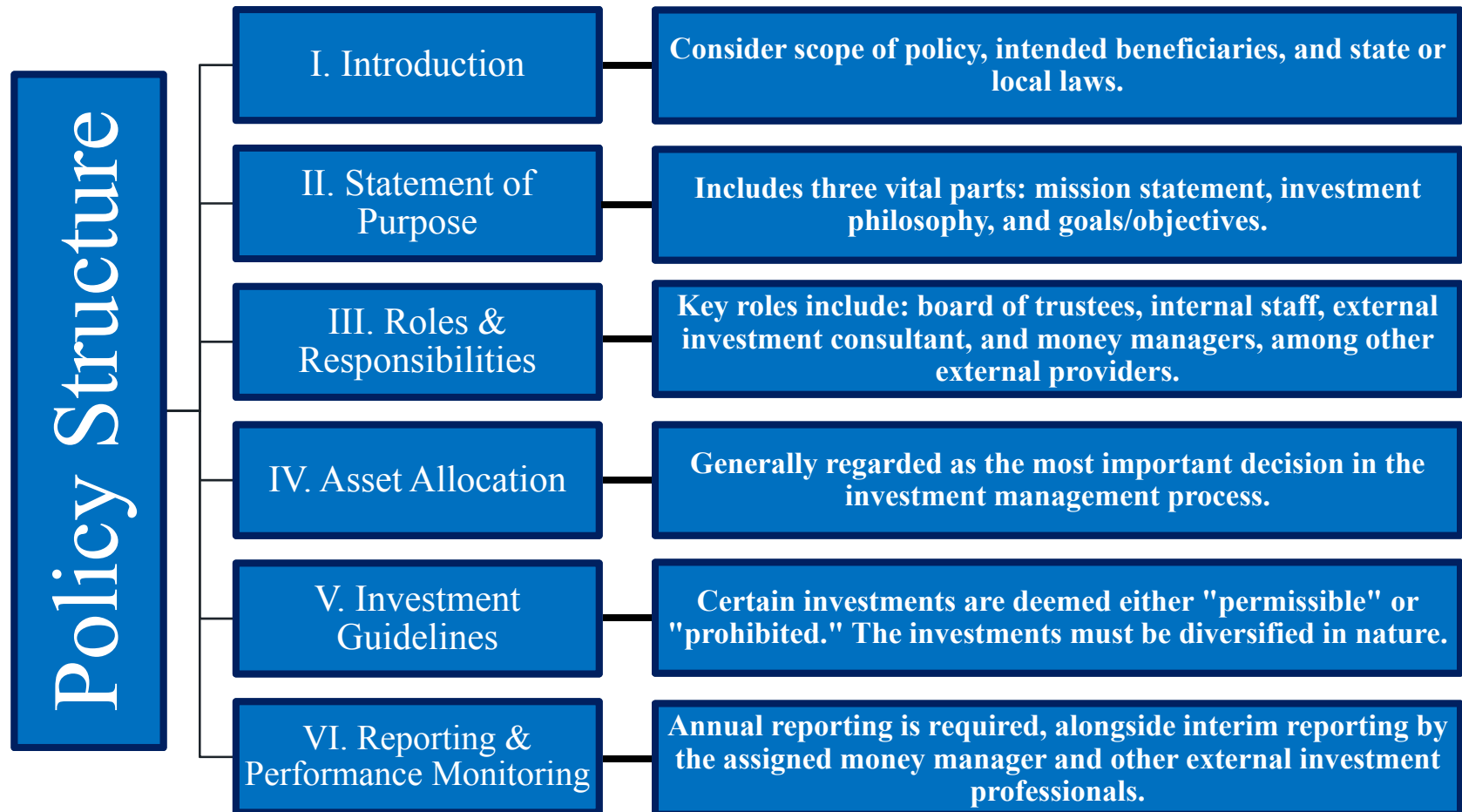
- Limits on transaction costs
- Index funds statement

Scope of an Investment Policy

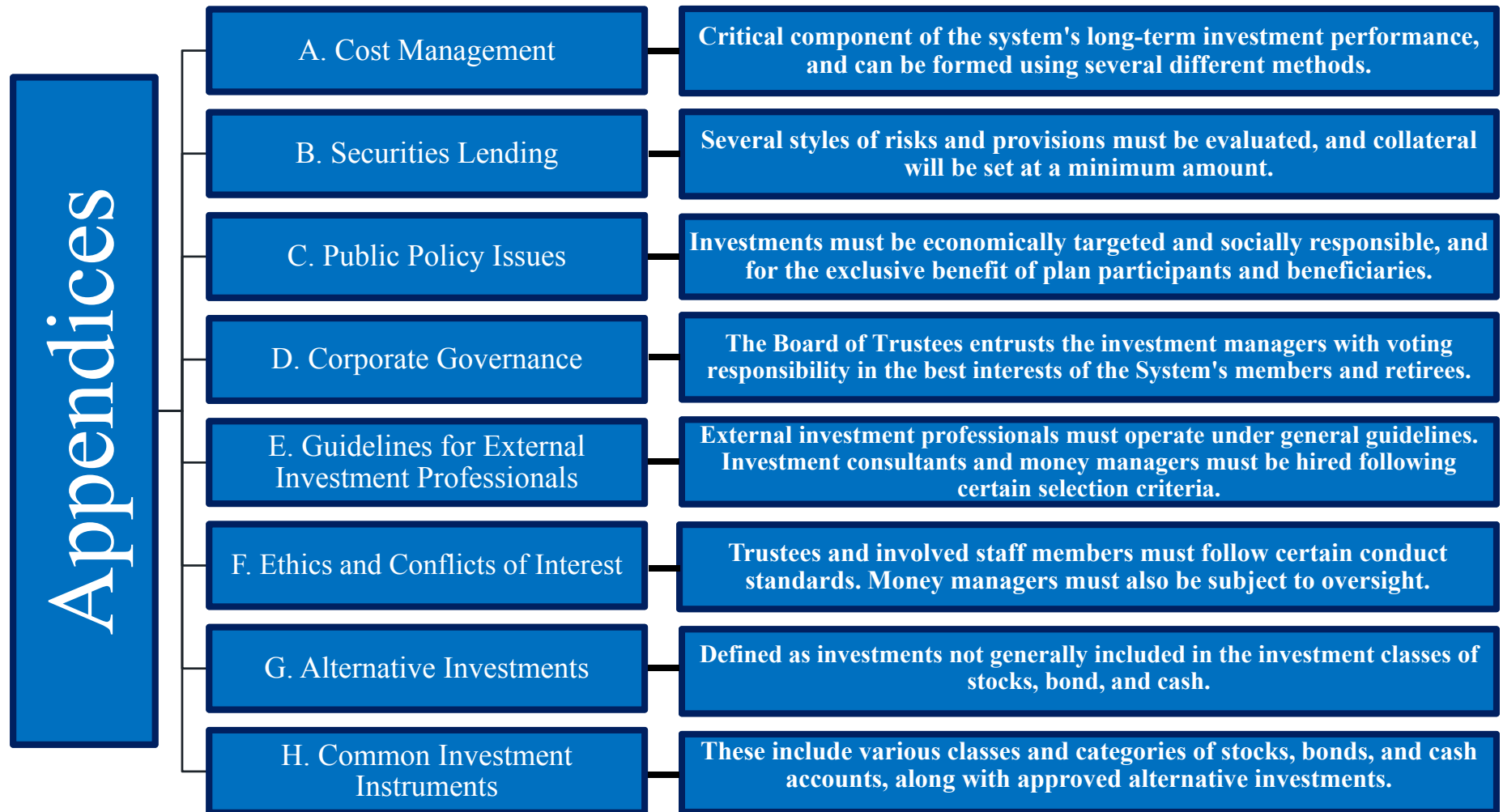


- Securities lending guidelines
- Directed brokerage guidelines
- Best execution standard
- Commission recapture

Investment Policy Structure



Investment Policy Appendices



V. Summary

A written investment policy is the single most important element in a public funds investment program. An investment policy should describe the most prudent primary objectives for a sound policy; safety, liquidity and yield. It should also indicate the type of instruments eligible for purchase by a government entity, the investment process and the management of a portfolio. Such a policy improves the quality of decisions and demonstrates a commitment to the fiduciary care of public funds with emphasis on balancing safety of principal and liquidity with yield. Adherence to an investment policy *signals to rating agencies, the capital markets and the public* that a government entity is well managed and is earning interest income suitable to its situation and economic environment.

For additional information and resources please visit www.gfoa.org



Elaina S. Spilove, Senior Institutional Consultant
Senior Vice President – Investments
UBS Institutional Consulting
1735 Market Street 36th Floor
Philadelphia, PA. 19103
215-496-2233
elaina.spilove@ubs.com; www.ubs.com/team/cslr



A thirty-year veteran of the financial services industry, Ms. Spilove serves institutional clients including public funds, endowments, foundations and defined benefit, deferred compensation and 401(k) plans. For 5 consecutive years, 2009-2013 Elaina received the distinction of being named to the prestigious Barron's Top 100 Financial Advisors list which is just one indication of the quality of advice and service she provides to her clients. In 2008 Ms. Spilove was named as one of the top wealth advisors in the Greater Philadelphia area by the Philadelphia Business Journal.

She is a graduate of the University of Pennsylvania's Wharton School of Business Investment Management Analyst Program, earning the Certified Investment Analyst© (CIMA©) designation and completed her Accredited Investment Fiduciary© (AIF©) certification at the Center for Fiduciary Studies. She is a member of many national industry organizations, including the Investment Management Consultants Association© (IMCA©), which sets industry standards in investment management consulting, the International Foundation of Employee Benefit Plans (IFEBP), PaPERS (Pa Association of Public Employee Retirement Systems) as well as the Council on Foundations.

Elaina frequently speaks to plan sponsors and trustees at educational conferences, discussing topics such as current issues facing fiduciaries, evaluating risk, measuring performance, asset allocation, asset/liability modeling and understanding investor behavior.

Elaina feels privileged to be able to devote time to a number of organizations both within her Center City, Philadelphia community and across the tri-state area.

"We don't predict events, we prepare portfolios for them."



Important Information

MSCI World Index

The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. As of May 2005 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. An investment cannot be made directly in a market index.

Hedge Fund Research Index – Equity Hedge Index (Hfri)

HFRI Equity Hedge Index represents performance of a universe of hedge funds that employ core holding strategies of long equities hedged at all times with short sales of stocks and/or stock index options. The hedge funds in this index commonly employ a variety of strategies and some employ leverage. Relatively conservative funds mitigate market risk by maintaining market exposure from zero to 100 percent. Relatively aggressive funds may magnify market risk by exceeding 100 percent exposure and, in some instances, maintain a short exposure. In addition to equities, some funds in this index may have limited assets invested in other types of securities.

Monte Carlo

Monte Carlo are a class of computational algorithms that rely on repeated random sampling to compute their results. Monte Carlo methods are often used in simulating physical and mathematical systems. Because of their reliance on repeated computation of random or pseudo-random numbers, these methods are most suited to calculation by a computer and tend to be used when it is unfeasible or impossible to compute an exact result with a deterministic algorithm.

Stochastic Process

Part of probability theory, a stochastic process, or sometimes random process, is the counterpart to a deterministic process or system. Instead of dealing with only one possible reality of how the process might evolve under time (as is the case, for example, for solutions of an ordinary differential equation, in a stochastic or random process there is some indeterminacy in its future evolution described by probability distributions. This means that even if the initial condition (or starting point) is known, there are many possibilities the process might go to, but some paths may be more probable and others less so.

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