

A scenic landscape photograph of a mountain range with evergreen trees in the foreground and a sunlit sky. A dark horizontal band is overlaid on the image, containing the title text.

Littleton Public Schools Fiduciary Education

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SESSION OVERVIEW

- Understanding Fiduciary Responsibilities
- The Due Diligence Process



UNDERSTANDING FIDUCIARY RESPONSIBILITIES

WHY IS GOVERNANCE IMPORTANT?

- An effective plan governance program will:
 - Simplify and streamline decision making
 - Reduce risk for the plan and its fiduciaries (which reduces exposure for the university)
 - Increase the likelihood that plan and participant objectives are met
 - Save time when a new committee member is appointed.

WHO IS A RETIREMENT PLAN FIDUCIARY?

- Anyone who has responsibility for other people's money
- Many actions involved in operating a plan make the person or entity a fiduciary
 - Using discretion in administering and managing a plan or controlling the plan's assets makes that person a fiduciary (to the extent of that discretion or control)
 - Hire, fire or retain service providers
 - Appoints Trustees
 - Serves as a member of the Trustee Board
 - Provides investment advice to the plan or its participants for a fee
- Fiduciary status based upon functions performed, not just a person's title

COMMITTEE DUTIES

- Committee duties can be divided into two categories:
 - **Settlor functions**
 - Settlor functions include duties typically related to plan design, such as establishment of a plan, determination of who the plan will cover, designing the benefit offerings, as well as the creation or termination (or even amendment) of a plan.
 - Committee acts on behalf of the Employer, not Plan Participants
 - **Fiduciary functions**
 - Fiduciary functions include selecting/monitoring investments available under plan, hearing and making determinations on claims and appeals, application of plan terms, selection and monitoring of plan service providers (TPA, trustee, investment advisor), interpreting plan provisions
 - Committee acts on behalf of the Plan Participants, not the Employer

RETIREMENT PLAN FIDUCIARIES

- Fiduciaries:
 - Trustees
 - Investment advisers
 - All individuals exercising discretion in administration of the plan
- NOT Fiduciaries:
 - Attorneys, accountants, and actuaries – when acting solely in their professional capacities
 - Brokers and recordkeepers are not fiduciaries

FIDUCIARY DUTIES

- **Each fiduciary should be aware of the scope of his/her duties under the plan.**
 - Duty of loyalty (exclusive benefit rule)
 - Duty of prudence (“prudent expert” standard)
 - Expert assistance
- **Courts are not kind to fiduciaries who claim not to have known about their fiduciary duties.**

DUTY OF LOYALTY

CUPIA §15-1.1-105

- “A trustee shall invest and manage the trust assets solely in the interest of the beneficiaries.”



PRUDENT EXPERT

CUPIA §15-1.1-102(a)

- “A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances.... In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.



“And, while there’s no reason yet to panic, I think it only prudent that we make preparations to panic.”

EXPERT ASSISTANCE WHEN NEEDED

The Department of Labor (DOL), as well as a number of courts, has taken the position that fiduciaries who are not qualified to fulfill their duties are legally required to seek assistance from competent sources. The DOL states: "Unless they possess the necessary expertise to evaluate such factors, fiduciaries would need to obtain the advice of a qualified, independent expert."

--[DOL Reg. §2509.95-1(c)(6)]



DELEGATION

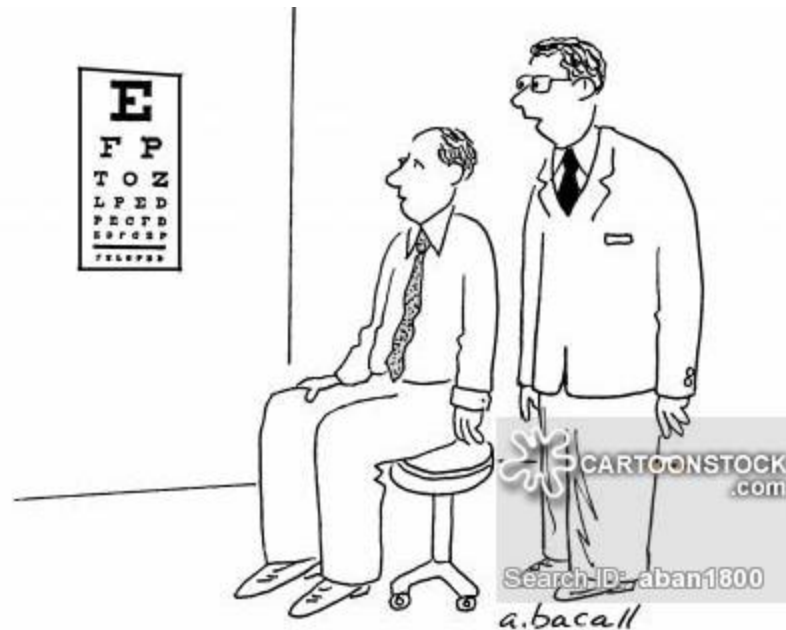
- Delegation is permitted and even encouraged by the law¹
- It is well recognized that trustees cannot personally perform every necessary function
- Nor can they be expected to possess all of the required expertise
- Trustees do, however, have the **ultimate** fiduciary responsibility
- They can delegate, but they cannot **abdicate**
- **Selecting** the persons or agents to perform the functions
- **Monitoring** the work being performed by the agents
- **Evaluating** the quality and timeliness of the work
- **Making** appropriate changes if warranted

1. Katsaros v. Cody, 744 F. 2nd 279 (2nd Cir.) (1984)

PROCESS, NOT HINDSIGHT, IS THE RELEVANT STANDARD

Courts in fiduciary breach cases have consistently stated that the fiduciary does not need to be “right” on every decision, but that the decision making process is what will determine fiduciary liability.

Compliance with the prudent investor rule is determined in light of the facts and circumstances existing at the time of a trustee’s decision or action and not by hindsight.



"Your investments are not working out because your hindsight is 20/20 and your foresight is 20/400."

SUMMARY – DECISION MAKING PROCESS

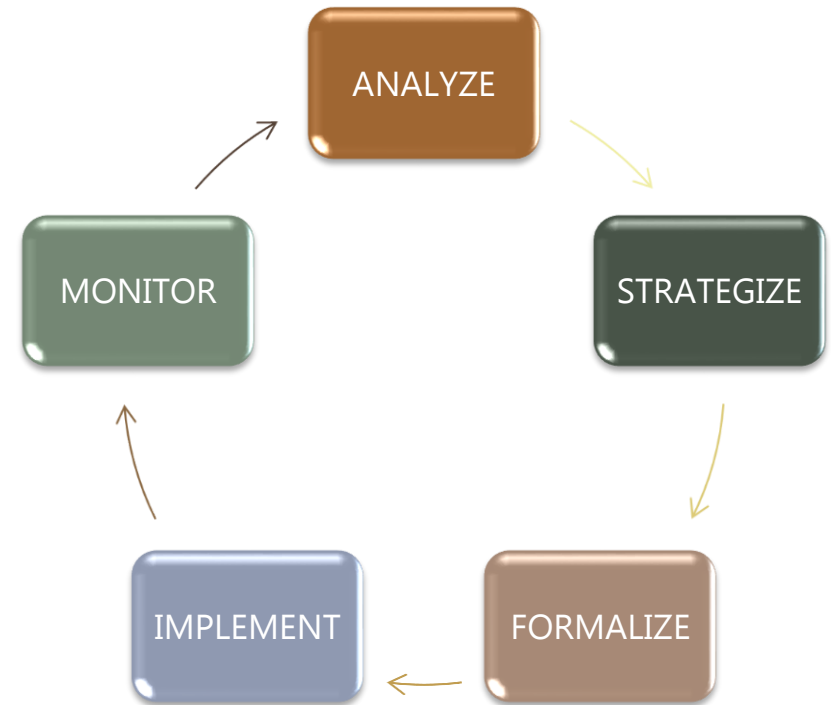
- Establish and communicate who (or which group) performs each plan function
- Be prepared to demonstrate, after the fact, your plan governance and decision making process
- Set up good communications between all plan-related parties, including internal and external
- Do not ignore the information and tools offered by your plan's consultant and service providers to help you fulfill your duties
- Remember, you have an obligation to conduct ongoing monitoring concerning how your plan governance structure is working and whether it can be improved



THE DUE DILIGENCE PROCESS

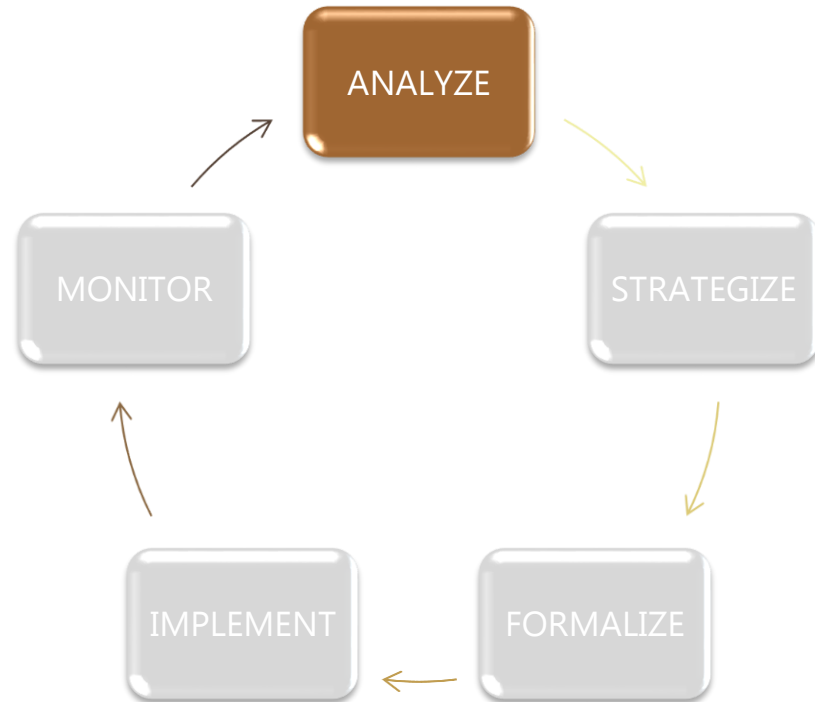
FOLLOW A PRUDENT PROCESS

- Analyze
- Strategize
- Formalize
- Implement
- Monitor
 - Providers
 - Products Offered
 - Related Expenses



STEP 1: ANALYZE

- To implement the process it is necessary to obtain a complete understanding of your current financial position, legal and regulatory constraints, current service providers and professional advisors, and investment risk/return profile.

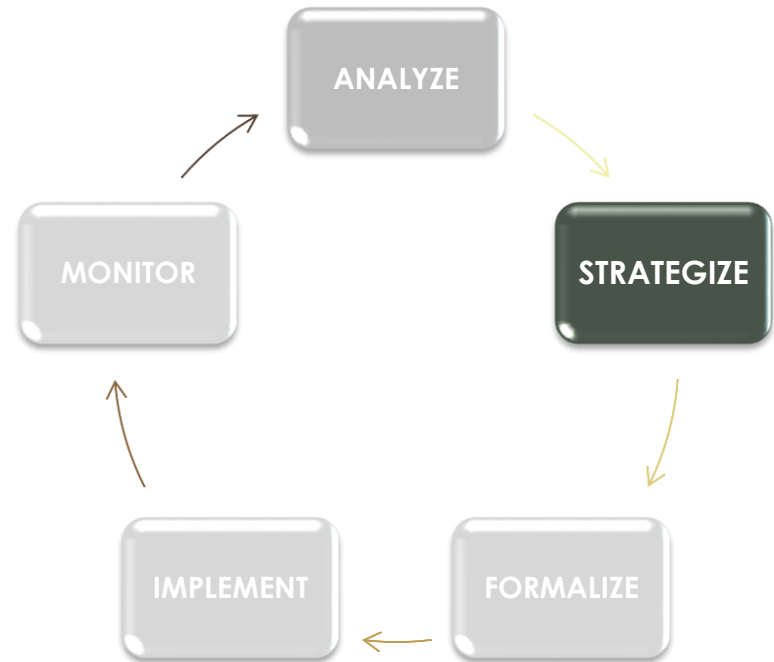


Collect, review, and analyze investment files:

- Investment policy statements (IPS);
- Applicable trust documents (including amendments);
- Custodial and brokerage statements so that current fees and expenses for investment management can be analyzed;
- Service agreements with investment management vendors (custodians, money managers, investment consultant, actuary, accountant, or attorney);
- Information on retained money managers, such as a prospectus or similar documents; and
- Any other files pertaining to the management of your plan.

STEP 2: STRATEGIZE

Identify the plan design, plan features and investment menu that will be used based on your specific participant base.



CREATING AN INVESTMENT MENU



Menu Coverage

Fixed Income

Metropolitan West Total Return Bond	Vanguard Total Bond Market Index
TIAA Traditional Retirement Choice	

Domestic Equity

	Value	Core	Growth
Large	Dodge & Cox Stock	Vanguard S&P 500 Index	Harbor Capital Appreciation
Mid	Vanguard Selected Value	Vanguard Mid Cap Index	Janus Enterprise
Small	DFA U.S. Small Cap Value	Vanguard Small Cap Index	Voya Small Cap Opportunities

Specialty

TIAA-CREF Social Choice Equity

Cash Equivalents

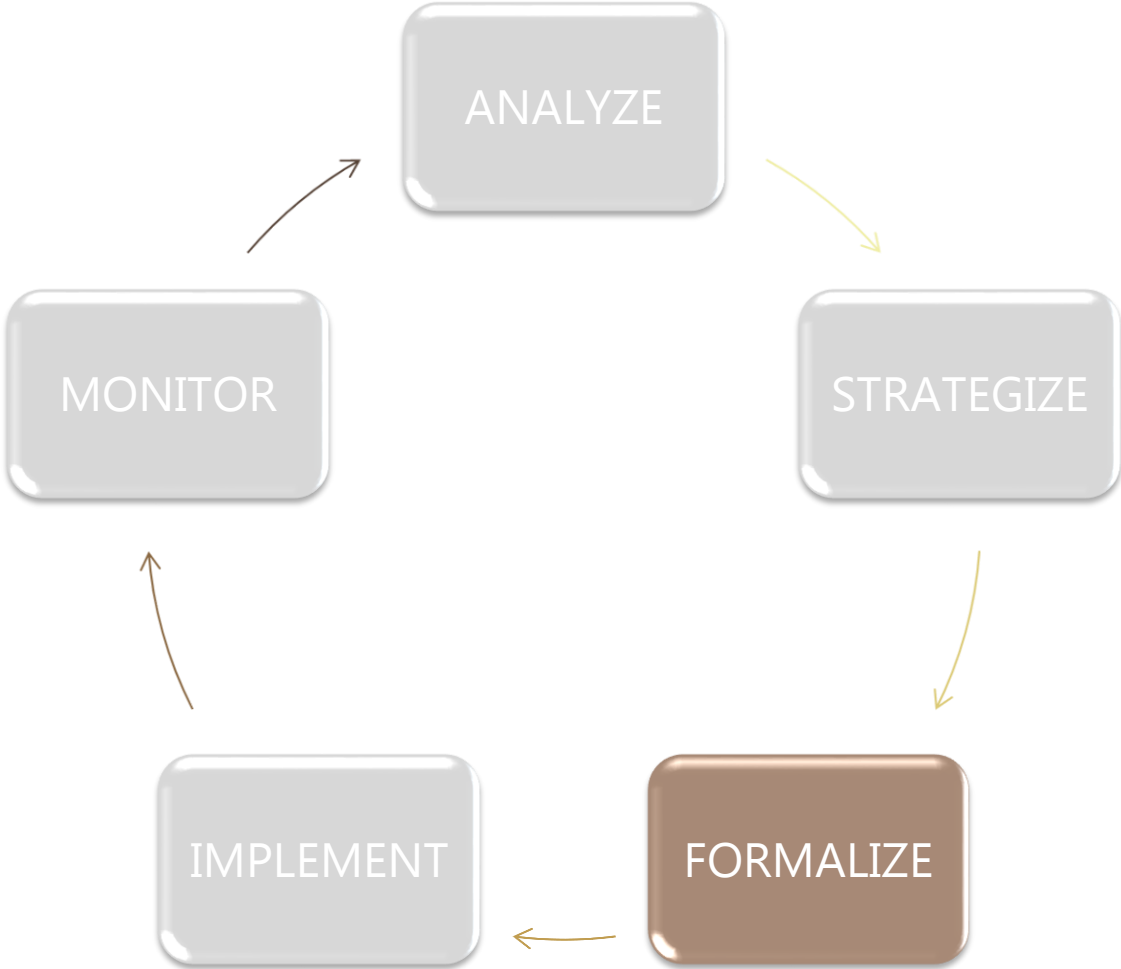
Vanguard Federal Money Market

International Equity

Value	Core	Growth
American Beacon International	Vanguard Total International Stock Index	American Funds Europacific

Target Date Portfolios				
Vanguard Target Retirement Income	Vanguard Target Retirement 2015	Vanguard Target Retirement 2020	Vanguard Target Retirement 2025	Vanguard Target Retirement 2030
Vanguard Target Retirement 2035	Vanguard Target Retirement 2040	Vanguard Target Retirement 2045	Vanguard Target Retirement 2050	Vanguard Target Retirement 2055

STEP 3: FORMALIZE

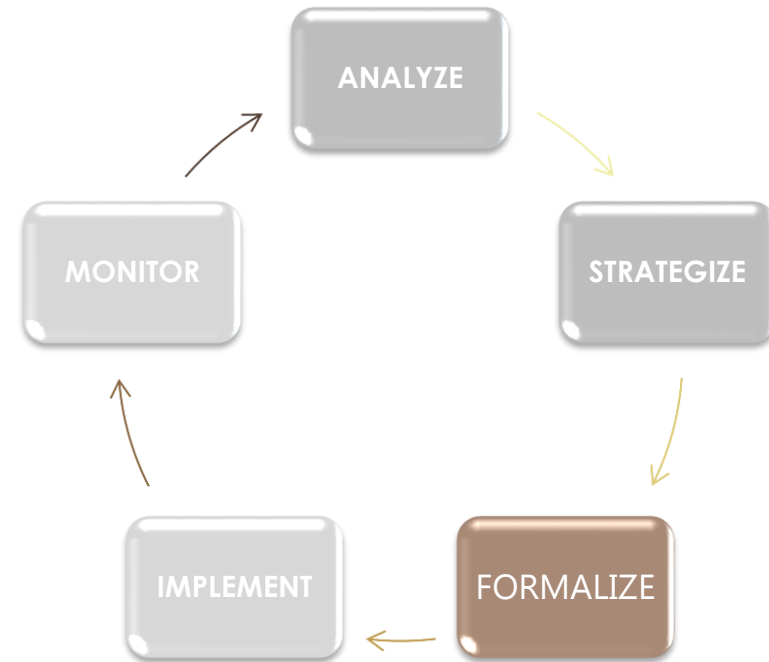


STEP 3: FORMALIZE

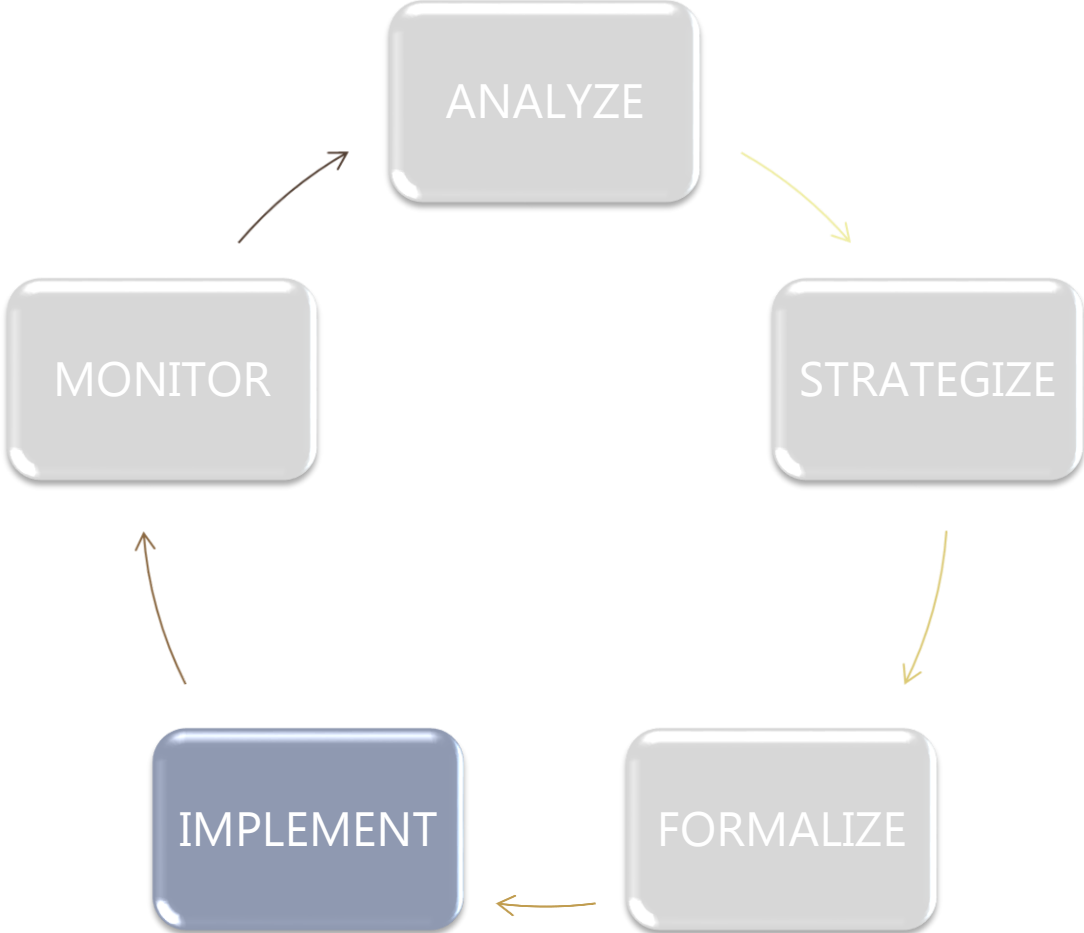
Document the decision making process through an Investment Policy Statement (IPS)

There are a number of reasons the IPS is important:

1. In the case of you serving in a fiduciary capacity, the IPS is the essential document that auditors, regulators, and the courts will review to help determine whether the plan is being prudently managed.
2. For the committee, the IPS ensures continuity of the investment strategy and keeps future members from second guessing the actions of the original members.
3. The IPS provides a paper trail of practices, and procedures for decisions. The document can serve as critical evidence used in the defenses against litigation or accusations of imprudence.
4. The IPS provides a baseline from which to monitor performance of the overall portfolio, as well as the performance of the investment advisor and of money managers.



STEP 4: IMPLEMENT



THE ROLE OF THE RECORDKEEPER/ CUSTODIAN

IMPLEMENT

The key entity that needs to be prudently selected at is the recordkeeper/custodian for your plan; a key provider which will greatly impact the quality of your plan.

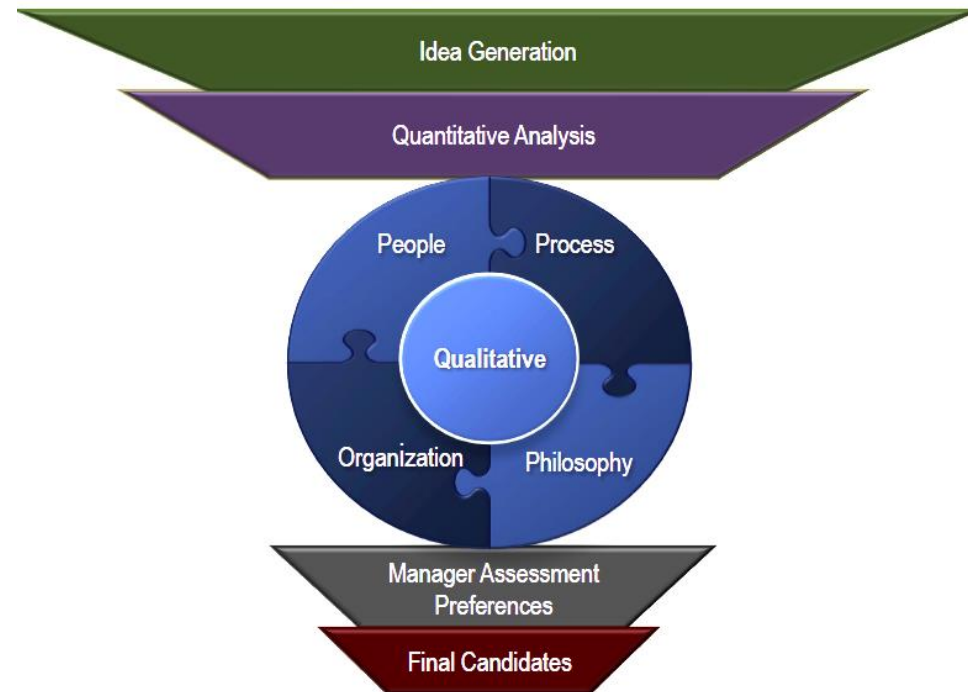
The role of the recordkeeper/custodian is to:

- Provide an interface for employees to transact on their accounts;
- Handle all transactions initiated by the participants;
- Value the accounts, provide statements and online access to these values;
- Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in values;
- Provide a menu of investment options.

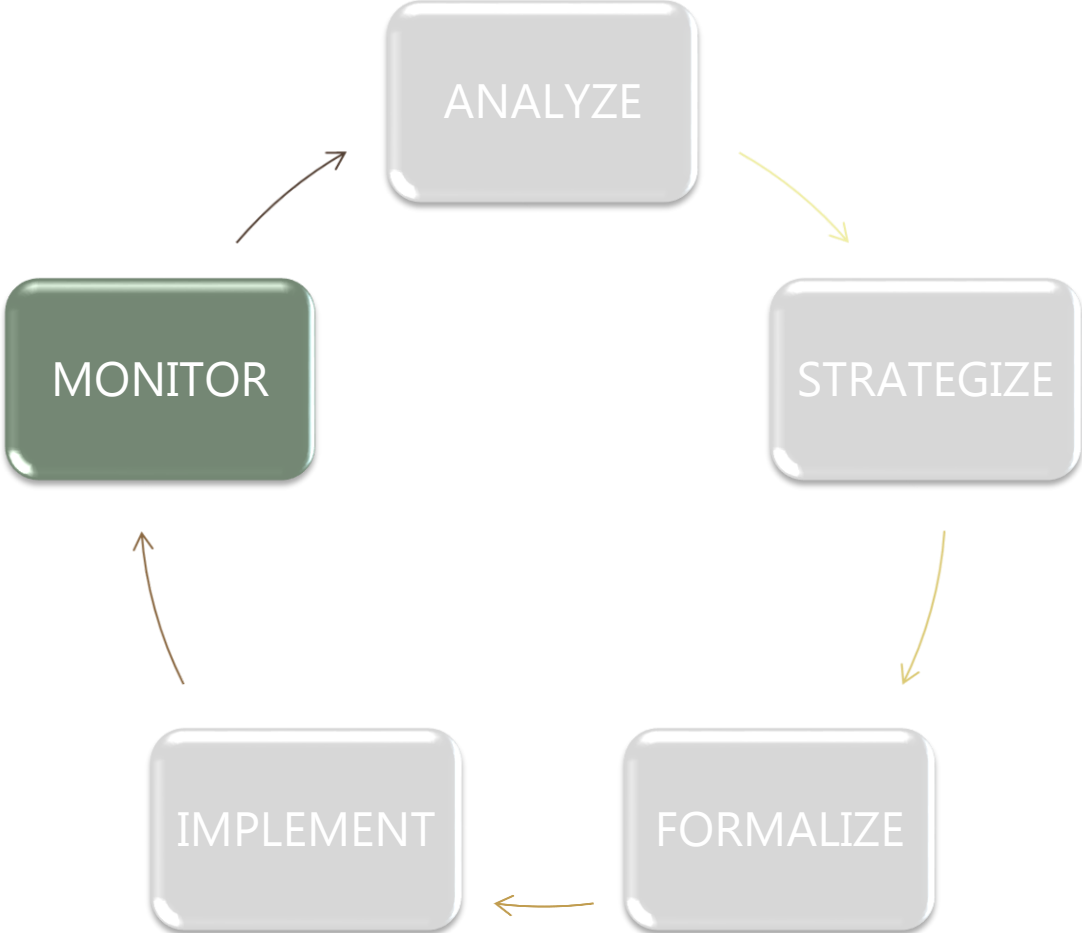
MANAGER SELECTION

IMPLEMENT

- Completely open universe with no proprietary funds
- Proper benchmarking is key to performance evaluation
- Consistent managers perform better in the long run
- Risk management is integral at every step and on every level
- A complete understanding of the “whys” of performance is crucial
- There is a direct trade-off between performance and fees and expenses



STEP 5: MONITOR



PERFORM PERIODIC EXAMINATIONS OF COSTS

MONITOR

Littleton Public Schools Combined Annual Fee Review

	<u>Plan</u>	<u>Benchmark*</u>
Plan assets as of 12/31/2016	\$ 8,595,900	Similarly Sized
Investment, Recordkeeping and Administrative Costs	0.63%	1.46%
Estimated Total Plan Expenses	0.95%	N/A

	Provider	Employer Paid		Employee Paid		Total	
		Fee (in \$)	Fee (in %)	Fee (in \$)	Fee (in %)	Fee (in \$)	Fee (in %)
Expense ratio retained by fund manager	Fund Managers			\$ 17,904	0.21%	\$ 17,904	0.21%
Revenue sharing sent to recordkeeper	TIAA			\$ 1,811	0.02%	\$ 1,811	0.02%
Gross Investment Management Fees		\$ -	0.00%	\$ 19,716	0.23%	\$ 19,716	0.23%
Recordkeeping/Administration Fee	TIAA			\$ 34,292	0.40%	\$ 34,292	0.40%
Gross Recordkeeping and Administrative Fees		\$ -	0.00%	\$ 34,292	0.40%	\$ 34,292	0.40%
Total Investment, Recordkeeping and Administrative Costs		\$ -	0.00%	\$ 54,007	0.63%	\$ 54,007	0.63%
Investment Consultant	Innovest	\$ 27,775	0.32%			\$ 27,775	0.32%
Total Plan Expenses		\$ 27,775	0.32%	\$ 54,007	0.63%	\$ 81,782	0.95%

*The plan's estimated investment, recordkeeping and administrative costs of 0.63% as shown above, compare favorably to 401(k) Source data, a universe of 60 similarly sized 401(k) plans with an average investment, recordkeeping and administrative cost of 1.46%.

This review illustrates estimated plan costs based on available data.

Cost Components: Where are the fees in your plan?



Defined Contribution Plan Costs

Investment Management Fees	TIAA Plan Administration and Recordkeeping Expenses	Innovest Investment Consulting/Plan Advice Expenses
<p>Mutual Funds</p> <p>Collective Trust Funds</p> <p>Annuities</p> <p>Separately Managed Accounts</p>	<p>Processing</p> <p>Recordkeeping</p> <p>Participant Education</p> <p>Trustee/Custodial Services</p> <p>Compliance Testing</p> <p>Plan Documents and Amendments</p> <p>Distribution/Contribution Administration</p>	<p>Performance Monitoring</p> <p>Due Diligence, Hiring, Retaining and Monitoring of Funds and Investment Managers</p> <p>Investment Policy Statement Preparation</p>

PERIODIC INVESTMENT MANAGER REVIEW AND PERFORMANCE EVALUATION

MONITOR

Manager Score Card

	Criteria							Costs			
	Organization	People	Philosophy & Process	Style Consistency	Asset Base	Performance	Expenses	Overall	Exp Ratio (%)	Median Exp Ratio (%)	Ratio of Exp to Median (%)
Dodge & Cox Stock (DODGX)	■	■	■	■	■	■	■	■	0.52	1.04	50.00
Vanguard 500 Index;Adm (VFIAX)	■	■	■	■	■	■	■	■	0.04	0.99	4.04
Harbor:Cap Apprec;Inst (HACAX)	■	■	■	■	■	■	■	■	0.65	1.08	60.19
BlackRock:Md Cp Div;I (MARFX)	■	■	■	■	■	■	■	■	0.85	1.10	77.27
Vanguard Mid-Cp Idx;Adm (VIMAX)	■	■	■	■	■	■	■	■	0.06	1.12	5.36
Jns Hndsn:Enterprise;N (JDMNX)	■	■	■	■	■	■	■	■	0.68	1.23	55.28
DFA US Small Cap Val;I (DFSVX)	■	■	■	■	■	■	■	■	0.52	1.25	41.60
Vanguard Sm-Cp Idx;Adm (VSMAX)	■	■	■	■	■	■	■	■	0.06	1.18	5.08
Voya:SmCp Oppty;R6 (ISOZX)	■	■	■	■	■	■	■	■	0.97	1.46	66.44
Am Beacon:Intl Eq;Inst (AAIEX)	■	■	■	■	■	■	■	■	0.70	1.14	61.40
Vanguard Tot I Stk;Adm (VTIAX)	■	■	■	■	■	■	■	■	0.10	1.09	9.17
American Funds EuPc;R6 (RERGX)	■	■	■	■	■	■	■	■	0.50	1.13	44.24
Met West:Total Return;I (MWTIX)	■	■	■	■	■	■	■	■	0.44	0.74	59.46
Vanguard Tot Bd;Adm (VBTLX)	■	■	■	■	■	■	■	■	0.05	0.74	6.76
TIAA-Traditional	■	■	■	■	■	■	■	■	0.00	0.00	0.00
TIAA-CREF:Soc Ch Eq;Inst (TISCX)	■	■	■	■	■	■	■	■	0.19	1.09	17.43
Vanguard Fed MM;Inv (VMFXX)	■	■	■	■	■	■	■	■	0.11	0.55	16.36
Vanguard Target Date (VTHRX)	■	■	■	■	■	■	■	■	0.15	0.87	17.24

Legend For Overall Criteria

■	No/Minimum Concerns	■	New No/Minimum Concerns
■	Minor Concern	■	Upgrade to Minor Concern
■	Major Concern	■	Downgrade to Minor Concern
■	Under Review	■	New Major Concern

PERFORM PERIODIC QUALITATIVE REVIEWS



Dodge & Cox Stock 12/31/17

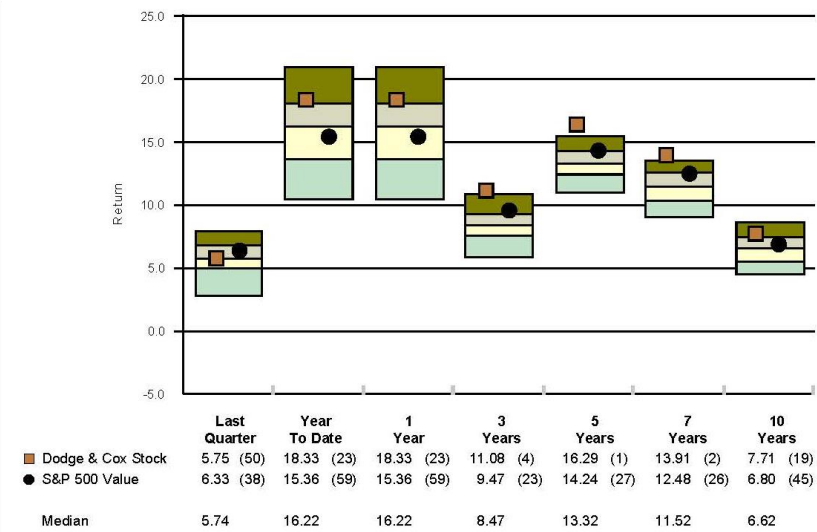
FUND INFORMATION

Fund Family : Dodge & Cox
 Fund Inception : 01/04/1965
 Portfolio Manager : Team Managed
 Total Assets : \$66,062 Million
 Turnover : 16%

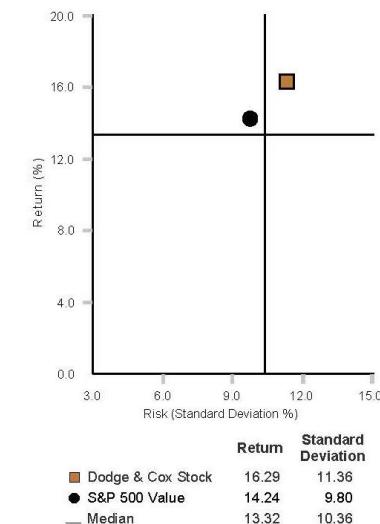
Investment Strategy:
 The Fund invests primarily in a diversified portfolio of common stocks. In selecting investments, the Fund invests in companies that, in Dodge & Cox's opinion, appear to be temporarily undervalued by the stock market but have a favorable outlook for long-term growth. The Fund focuses on the underlying financial condition and prospects of individual companies, including future earnings, cash flow and dividends. Various other factors, including financial strength, economic condition, competitive advantage, quality of the business franchise and the reputation, experience and competence of a company's management are weighed against valuation in selecting individual securities.

Innovest's Assessment:
 Dodge & Cox's collaborative, fundamental research approach is expected to generate shareholder value over full market cycles and when markets reward the firm's contrarian style. Conversely, performance may suffer during periods driven by more macroeconomic events, or a disregard for company specific valuation and fundamentals.

PEER GROUP ANALYSIS - IM U.S. Large Cap Value Equity (MF)



RISK VS. RETURN (5 YEARS*)



CALENDAR YEAR RETURNS AND PERCENTILE RANKINGS

	2016	2015	2014	2013	2012	2011	2010
Dodge & Cox Stock	21.28 (4)	-4.49 (61)	10.40 (63)	40.55 (1)	22.01 (2)	-4.08 (69)	13.49 (40)
S&P 500 Value	17.40 (22)	-3.13 (33)	12.36 (19)	31.99 (56)	17.68 (26)	-0.48 (31)	15.10 (24)
IM U.S. Large Cap Value Equity (MF) Median	14.13	-3.86	10.88	32.33	15.79	-2.38	12.70

ROLLING 3 YEAR RETURN AND PERCENTILE RANKINGS

	3 Years Ending Dec-2017	3 Years Ending Dec-2016	3 Years Ending Dec-2015	3 Years Ending Dec-2014	3 Years Ending Dec-2013	3 Years Ending Dec-2012	3 Years Ending Dec-2011
Dodge & Cox Stock	11.08 (4)	8.55 (8)	14.01 (11)	23.71 (1)	18.04 (5)	9.92 (24)	12.63 (27)
S&P 500 Value	9.47 (23)	8.51 (9)	12.83 (30)	20.40 (33)	15.62 (35)	10.47 (16)	11.55 (39)
IM U.S. Large Cap Value Equity (MF) Median	8.47	6.80	12.23	19.47	14.64	8.54	10.96

*If less than 5 years, data is since inception of fund share class.

PERFORM PERIODIC QUALITATIVE REVIEWS



Dodge & Cox Stock 12/31/17

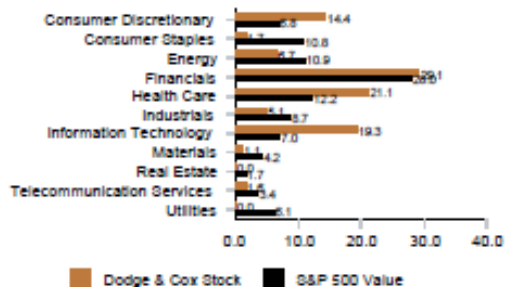
PORTFOLIO CHARACTERISTICS

	Portfolio	Benchmark
Wtd. Avg. Mkt. Cap \$M	\$144,411	\$133,551
Median Mkt. Cap \$M	\$53,800	\$20,284
Price/Earnings ratio	21.41	20.50
Price/Book ratio	2.66	2.42
5 Yr. EPS Growth Rate (%)	7.30	4.90
Current Yield (%)	1.66	2.41
Beta (5 Years, Monthly)	1.09	1.00
% in Intl Securities	12.64	4.46
Active Share	80.09	N/A
Number of Stocks	65	391

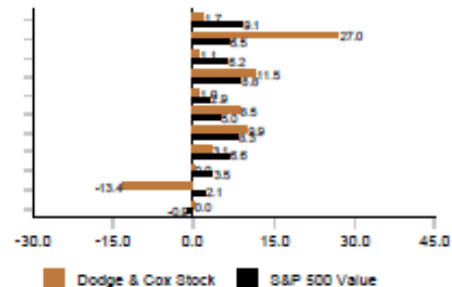
TOP 10 HOLDINGS

	Portfolio Weight (%)	Benchmark Weight (%)	Quarterly Return (%)
Schwab (Charles) Corp	4.36	0.00	17.66
Bank of America Corp	4.36	1.34	16.99
Capital One Financial Corp.	3.89	0.43	18.16
Wells Fargo & Co	3.78	2.41	10.77
Goldman Sachs Group Inc	3.12	0.80	7.74
Microsoft Corp	3.05	0.00	15.42
Alphabet Inc	2.90	0.00	9.10
Charter Communications Inc	2.87	0.00	-7.56
Novartis AG	2.86	0.00	-2.20
Comcast Corp	2.60	0.84	4.51

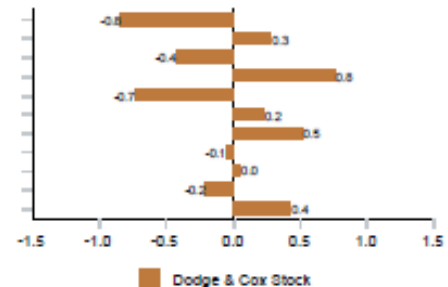
SECTOR ALLOCATION



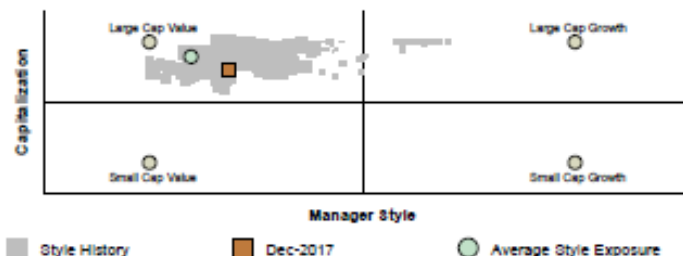
SECTOR PERFORMANCE



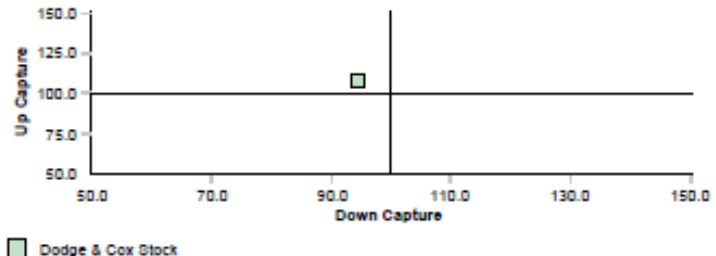
TOTAL SECTOR ATTRIBUTION



STYLE MAP (01/01/79 - 12/31/17)



UP/DOWN CAPTURE (01/01/13 - 12/31/17)



SUMMARY

- Know and understand your fiduciary duties and responsibilities
- Delegate to prudent experts
- Monitor experts and costs
- Document, document, document