



Investment Policy Statements for Defined Contribution Plans

Linda Ruiz-Zaiko, President
ruiz-zaiko@bridgebay.com

Barbara Williams, CFA, Managing Director
williams@bridgebay.com

Bridgebay Financial, Inc.
925-743-0200
www.bridgebay.com





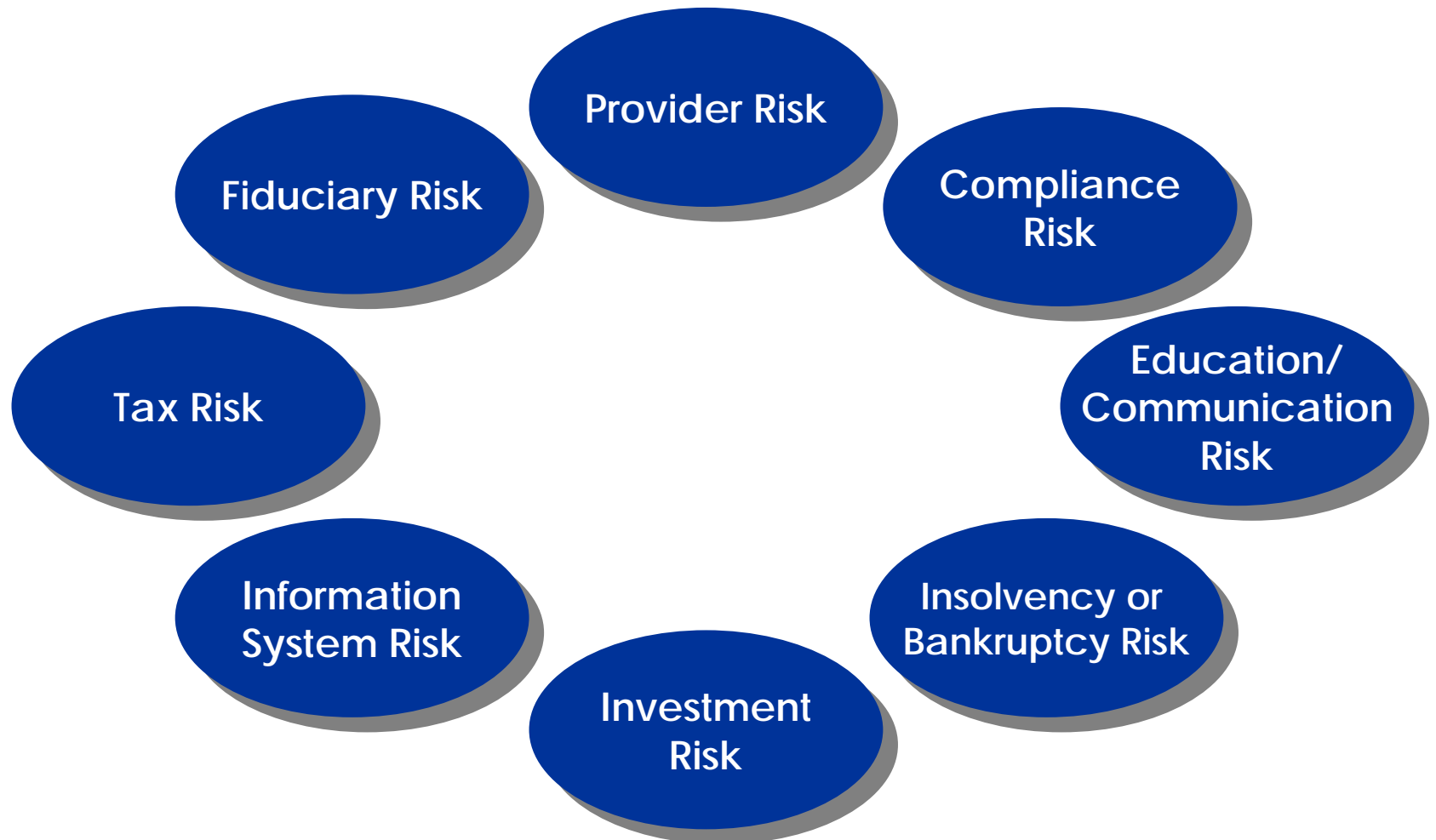
- ▶ **New legislation, litigation, regulations require update IPS**
- ▶ **Pension Protection Act 2006**
 - ▶ Incorporate new plan features and enhancements
 - ▶ Provides safe harbors for plan sponsors
- ▶ **Litigation – Providers and Plan Sponsors**
 - ▶ Top companies sued since September, 2006
 - ▶ Most have 401(k) plans > \$2 billion assets
 - ▶ Best defense is a well-documented, prudent process
- ▶ **Increased DOL audits**
 - ▶ Focus on due diligence, process and procedures
 - ▶ Inconsistent IPS & plan document
 - ▶ IRS Form 5500 variances
 - ▶ Company stock





- ▶ **Automatic enrollment**
 - ▶ New or existing participants
 - ▶ Opt-out, re-auto enroll annually or once
- ▶ **Automatic deferral increases**
 - ▶ New or all participants, must opt out
 - ▶ 1% per year up to 6%
- ▶ **Automatic investments**
 - ▶ Qualified default investment alternative (QDIA)
 - ▶ Default fund, target maturity funds, or managed accounts
- ▶ **Plan assets can be used to pay for fiduciary consultants and financial advisors**







- Plan Sponsor
- Trustee
- Investment Manager
- Plan Administrator
- Deferred Compensation Committee
- Investment Consultant







- ▶ **Statement of Purpose**
- ▶ **Plan Objectives and Information**
- ▶ **Delegation of Responsibilities and Authority**
 - ▶ Fiduciaries
- ▶ **Prudence, Responsibilities and Controls**
- ▶ **Investments**
 - ▶ Vehicle Selection Criteria
 - ▶ Investment Option Evaluation
- ▶ **Plan Monitoring**
 - ▶ Watch List Criteria
 - ▶ Retain, Review, Watchlist, Terminate, Replace
 - ▶ Ongoing Performance Standards
 - ▶ Ongoing Quantitative/Qualitative Standards



- ▶ **Benchmark Peer Group**
- ▶ **Plan Fees**
- ▶ **Participant Education and Communication**
- ▶ **Prohibited Transactions**
- ▶ **Reporting and Administrative Requirements**
 - ▶ Fees, Transactions, Proxy Voting Policies
- ▶ **Risk Management**
- ▶ **Participant Investment Control Parameters**
- ▶ **Compliance with Plan Document**
- ▶ **Annual Review of IPS and Plan**





▶ Investment Policy Statement

- Reviewed and updated annually
- Watch list criteria for all funds
- Specific process to watch, retain, and replace funds

▶ Investment Committee

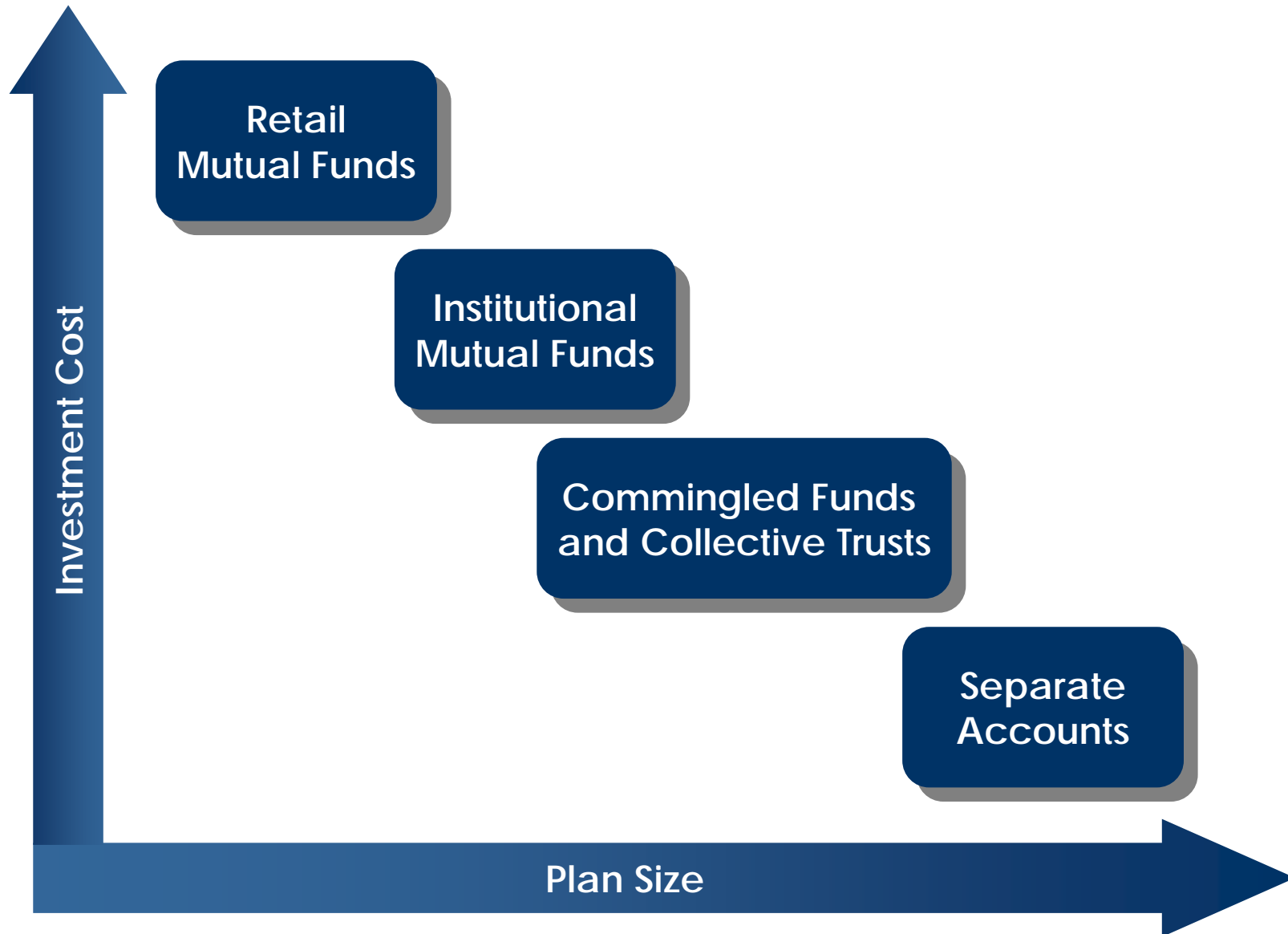
- Quarterly meetings
- Highly involved individuals
- Meetings have specific agenda set in advance
- Fund and plan due diligence
- Review feedback from participants



- ▶ **Core Investments**
 - ▶ Investment represent all asset classes
 - ▶ Low cost investments for fiduciary protection
 - ▶ Institutional Shares
 - ▶ Collective Trusts
 - ▶ Separately Managed Accounts
 - ▶ Indexed Core Investments

- ▶ **Packaged Solutions**
 - ▶ Target Date Funds
 - ▶ Fund of Funds
 - ▶ Model Portfolios
 - ▶ Managed Accounts

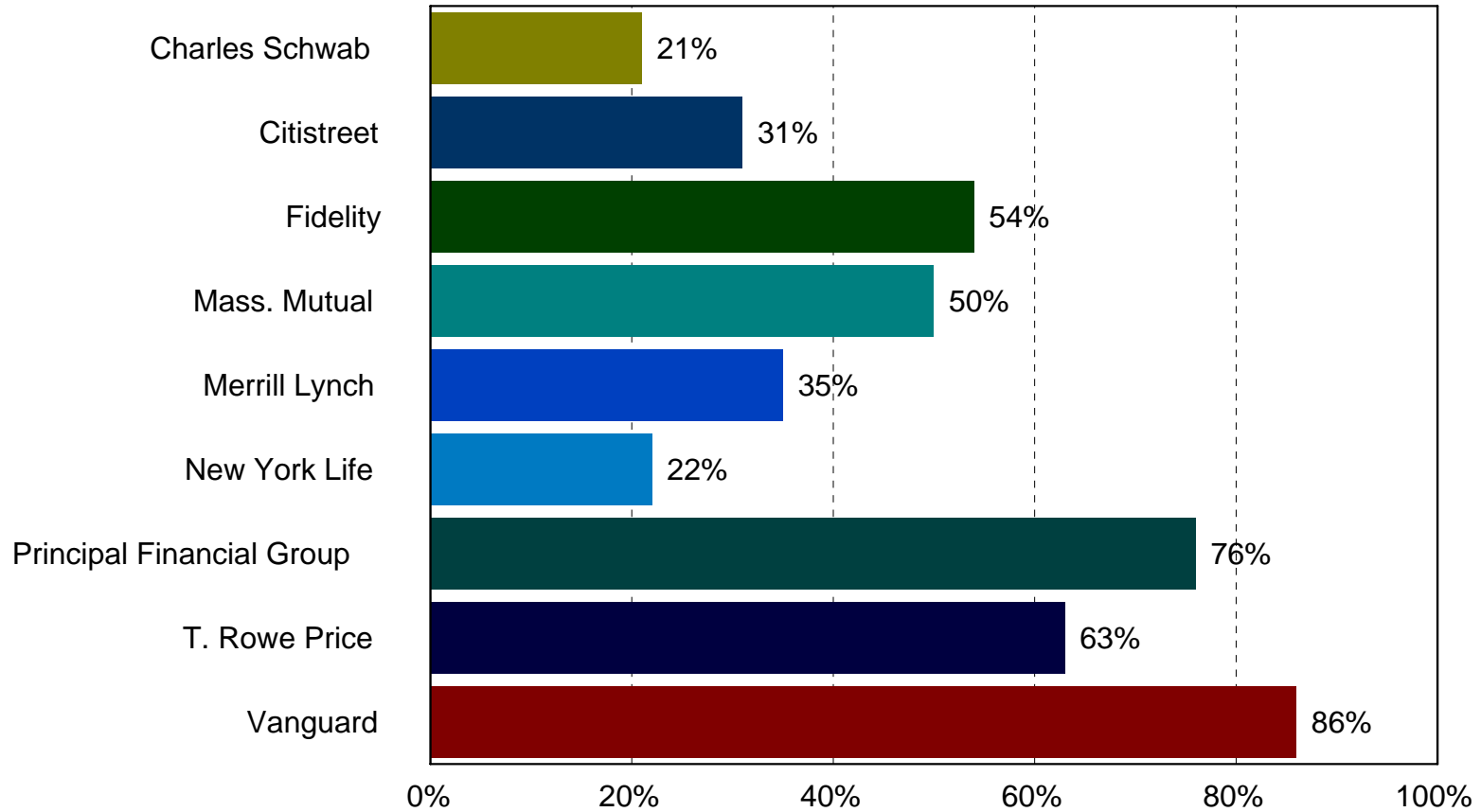






Proprietary Fund Assets in Bundled Plans by Top Providers

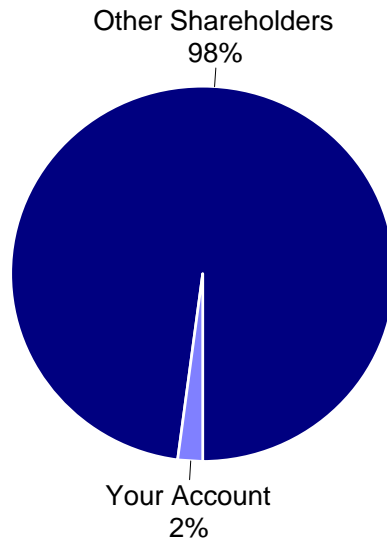
Open architecture reduces proprietary funds



Source: Pension & Investments

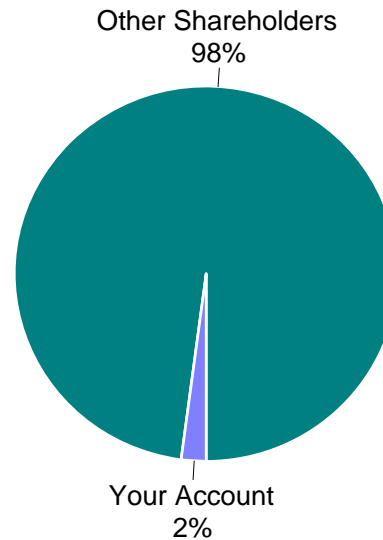


Mutual Fund



Pooled fund operated by an investment company that invests shareholder assets in accordance with a stated set of objectives

Commingled Trust Fund



Pooled fund operated by a trust company for the collective investment of a qualified retirement plan

Separately Managed Account

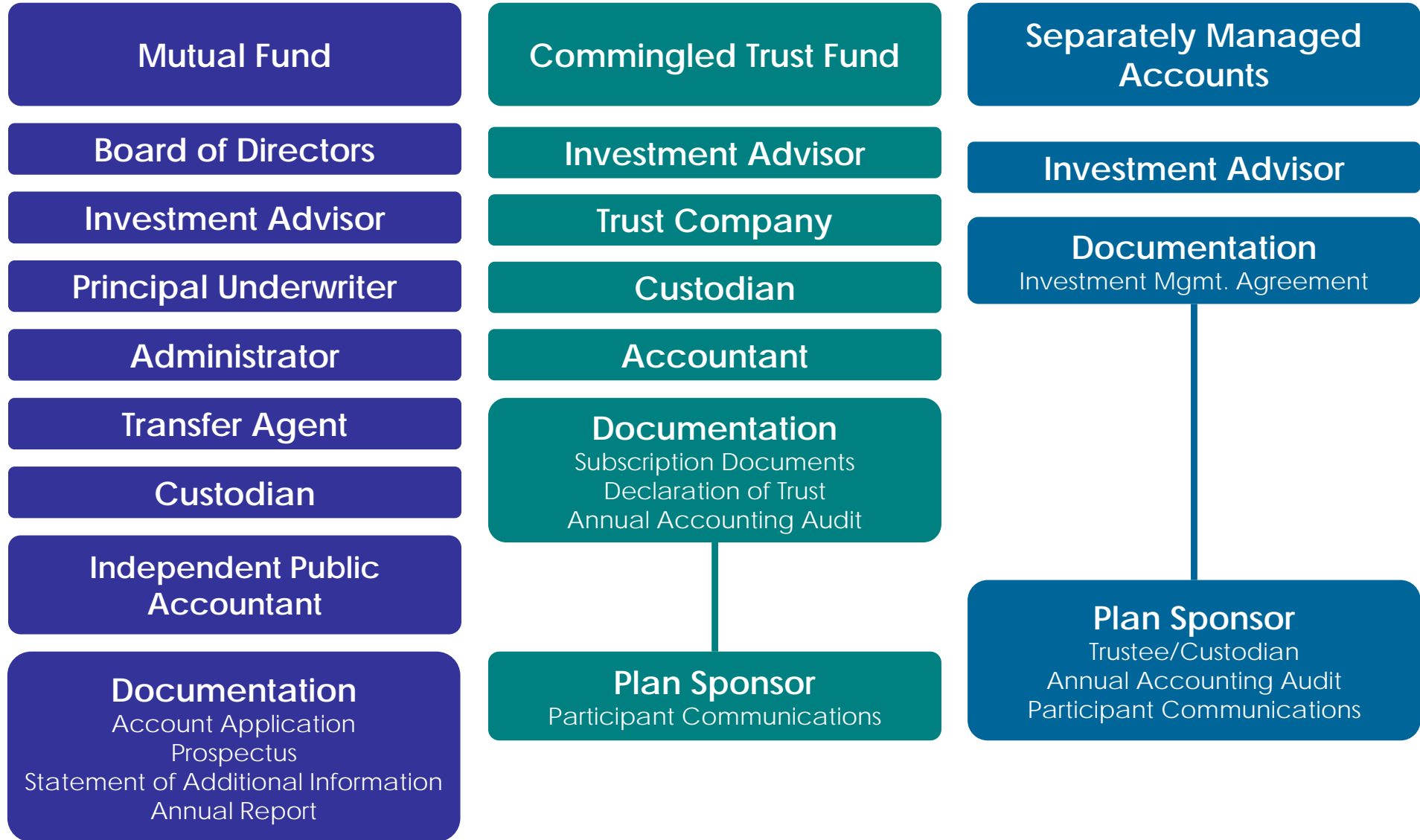
Security	# Shares	Market Value
Microsoft Corp.	6,845	\$ 164,280
Texas Instruments Inc.	4,562	\$ 109,488
Applied Materials, Inc.	4,875	\$ 117,000
First Data Corp.	8,652	\$ 207,648
Yahoo! Inc.	2,685	\$ 64,440
Cisco Systems, Inc.	12,945	\$ 310,680
Sun Microsystems, Inc	8,649	\$ 207,576
Micron Technologies	2,648	\$ 63,552
Total		\$1,244,664

Portfolio managed by an investment manager to meet the specific needs and investment objectives of the plan sponsor

Source: P & I Defined Contribution



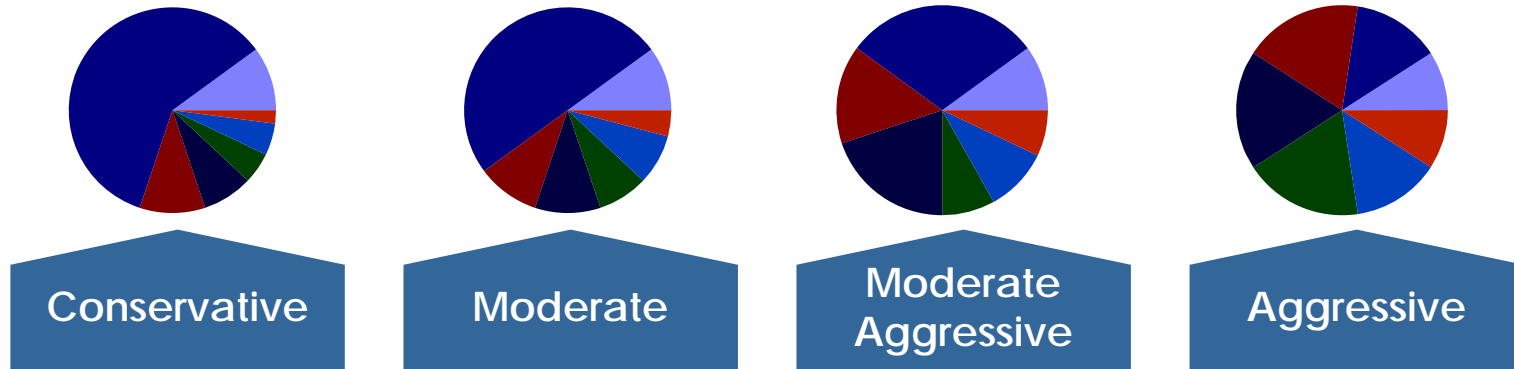
Structures and Service Components



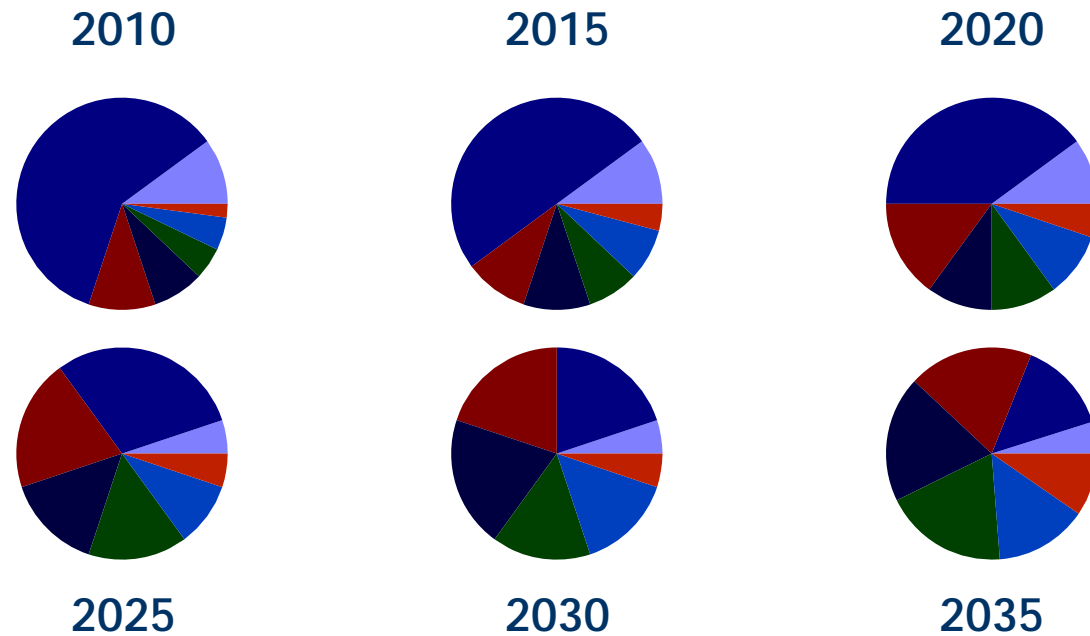
Source: P & I Defined Contribution



Risk Based Models



Target Maturity Models

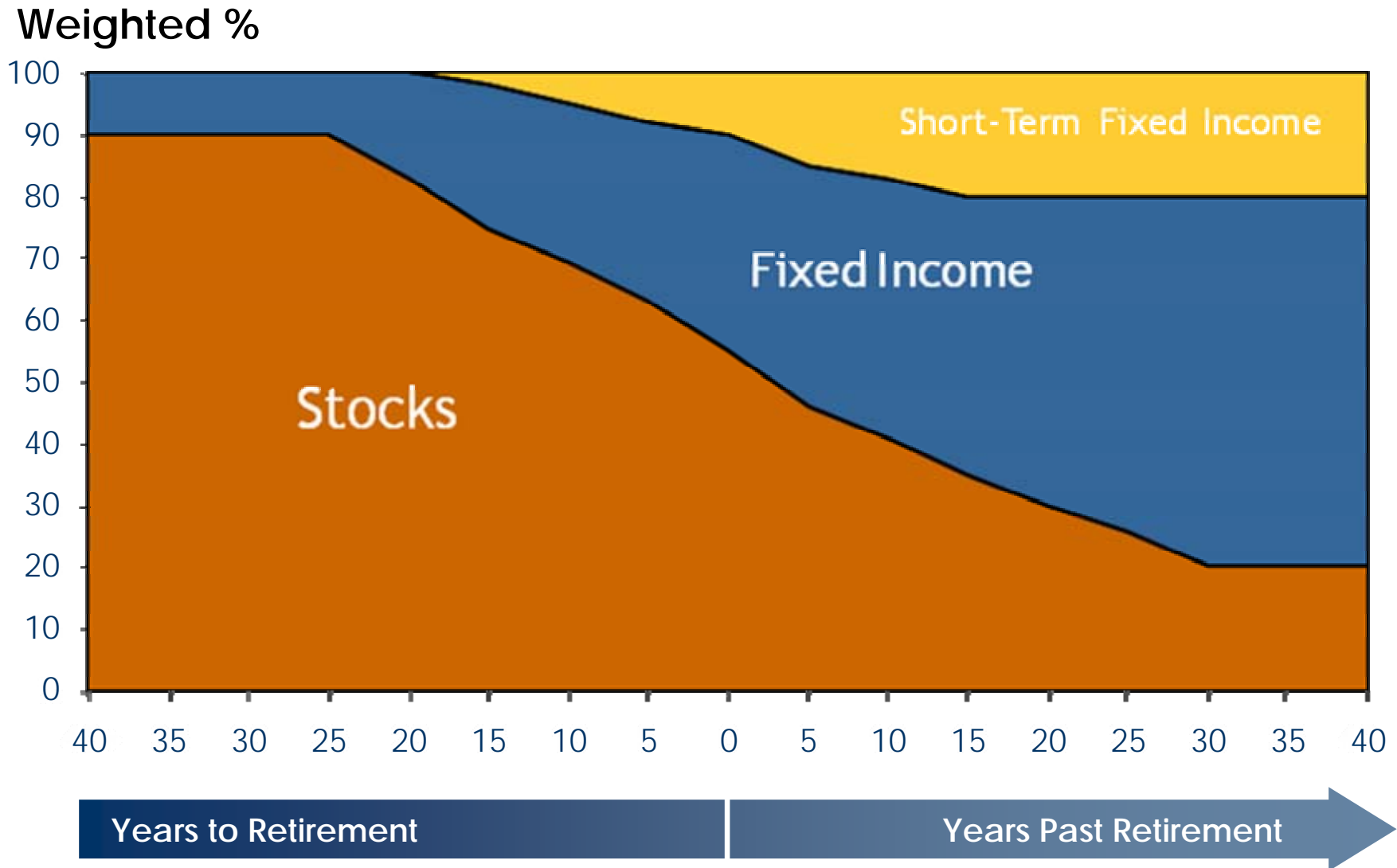




Plan Size Determines Target-Date Implementation

Approximate Initial Target-Date Fund Asset Level	<\$250 Million	>\$250 Million	>\$1 Billion
Implementation:	Prepackaged Closed-Architecture	Tailored Flexible-Architecture	Open-Architecture DB-like Structure
Overall Design:	Asset Allocation Predetermined by a Manager	Asset Allocation Tailored to a Plan by a Manager	Asset Allocation Tailored to a Plan by a Manager
Security Selection:	Same Manager for All Underlying Components	Same Manager for All Underlying Components	Multiple Managers for Underlying Components
Typical Funds	Mutual Funds	Collective Trusts	Separate Accounts

- Benefits:**
- Minimizing Fees as Assets Grow
 - Ability to Change Underlying Managers
 - Institutional DB Approach





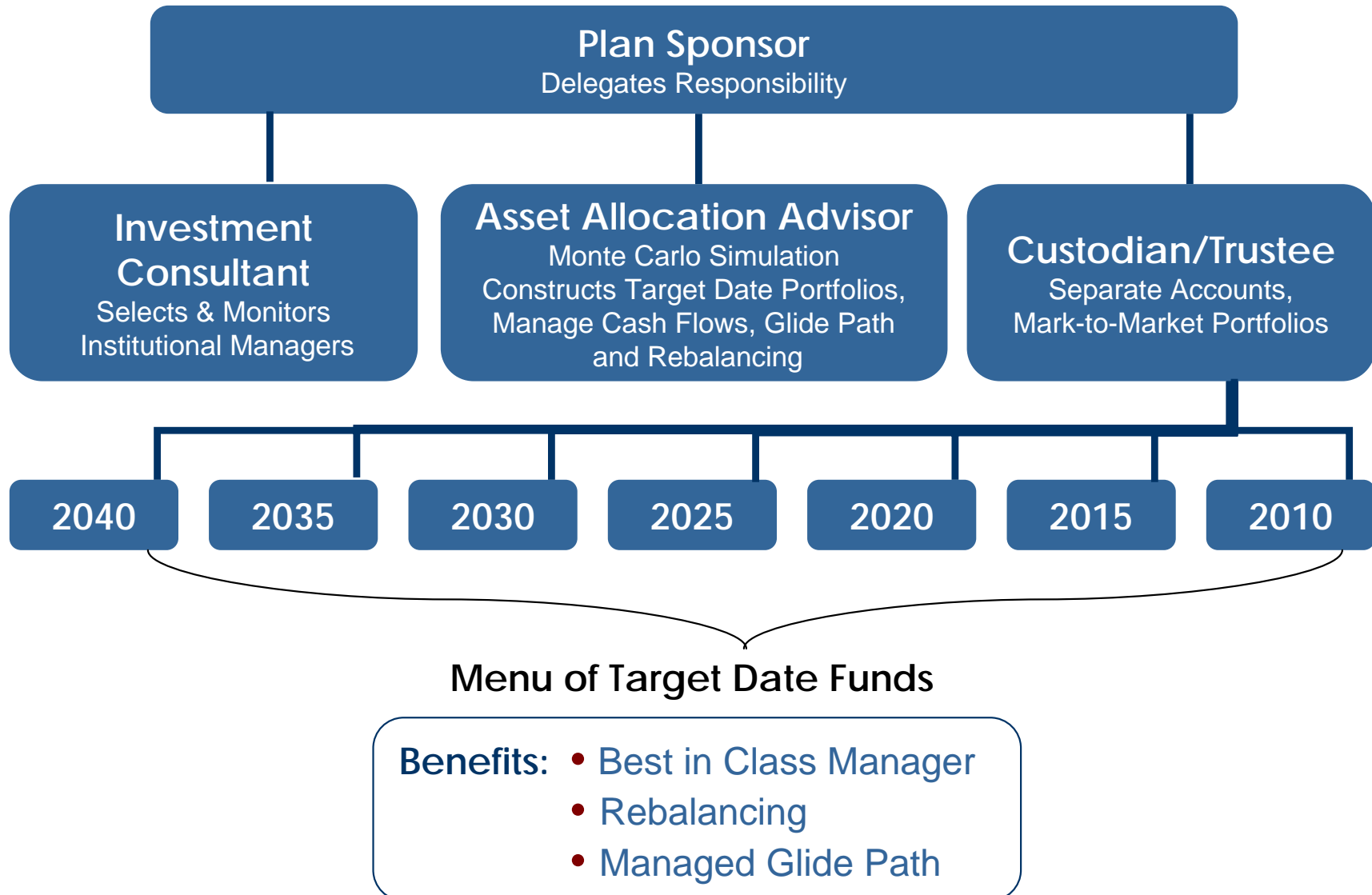
- ▶ Pre-packaged “off the shelf” funds
 - ▶ Limited transparency of quality/turnover of underlying funds, limited due diligence
 - ▶ Products and asset classes used may differ dramatically from core funds
 - ▶ Many include mediocre, lower rated funds
 - ▶ May include asset classes not included in core fund options (emerging markets, sectors, regional, specialty) and contrary to Investment Committee
 - ▶ Benchmark: Dow Jones Target Date Indices

- ▶ Custom designed funds – Mix your own
 - ▶ Best in class underlying funds, highest rated funds
 - ▶ Can mix active, index, ETF funds as appropriate
 - ▶ Leverages due diligence of core fund options
 - ▶ Transparency of fund holdings
 - ▶ Participants see % underlying core funds in statement



- ▶ Asset allocation models
- ▶ Plan sponsor delegates responsibilities to multiple experts
 - ▶ Consultant for manager selection and monitoring
 - ▶ Glide path manager
 - ▶ Recordkeeper
 - ▶ Trustee/Custodian
 - ▶ Investment managers
- ▶ Fund creation considerations
 - ▶ Separate accounts, commingled funds, institutional funds
 - ▶ Active or indexed
 - ▶ Style, core or blend
 - ▶ Manager monitoring, alpha, tracking error







- ▶ **Greater risks associated with company stock in 401(k) plans**
 - ▶ Company match
 - ▶ Investment choice
- ▶ **DOL targeting company stock for audits**
- ▶ **122 stock-drop suits filed over last 5 years**
 - ▶ *Easier to sue under ERISA*
 - ▶ Target companies with own stock in 401(k) plans
 - ▶ 21 suits 2005
 - ▶ 19 suits 2006





- ▶ **Managed Accounts use Multiple Parameters**
 - ▶ Risk tolerance
 - ▶ Level of funding
 - ▶ Includes other income sources (SS, DB, annuities)
 - ▶ Includes other retirement assets
 - ▶ Includes spousal assets
 - ▶ Incorporate income, cash needs for retirees
 - ▶ Includes company stock
 - ▶ Independent third party selects managers





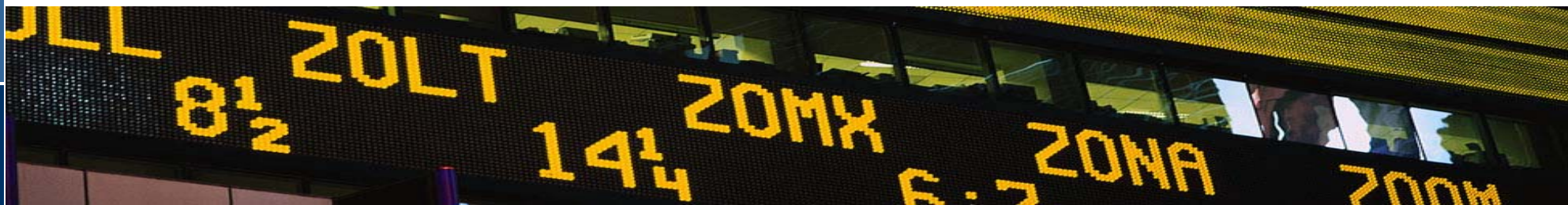
Self-Directed Brokerage Windows Issues

▶ Pros

- ▶ Allow participants to create a portfolio that is appropriate for all levels of risk and return
- ▶ Allow participants to buy and sell stocks, bonds and mutual funds through a broker that are not included in the plan's investment options
- ▶ Enables plan sponsors to give their participants more choices without the expense of due diligence, management and recordkeeping for multiple funds

▶ Cons

- ▶ In declining markets, ensuring that a plan qualifies for safe harbor under Section 404(c) is paramount.
- ▶ Equity wash rule on plan participants may have to be instituted
- ▶ The burden of opening a brokerage window falls to the participants and the brokerage window does not show up on plan statements as an investment option
- ▶ Additional administrative burdens and plan sponsor costs associated with annual reporting requirements





- ▶ **Plan sponsor must qualify the Financial Advisor for 1-on-1 consulting**
- ▶ **Must have written process:**
 - ▶ Selecting, monitoring, and auditing financial advisor
- ▶ **“Eligible investment advice arrangement”**
 - ▶ Between advisor and plan sponsor
 - ▶ Must detail limits of advice
- ▶ **Financial advisor must be affiliated with:**
 - ▶ Registered investment advisor, bank, insurance company, broker/dealer yet independent of the plan providers
- ▶ **Cannot sell own firm’s investment products**



- ▶ **Financial Advisor must:**
 - ▶ Have eligible investment advice arrangement authorized by plan fiduciary
 - ▶ Submit an annual audit
 - ▶ Provide written disclosures concerning all affiliations, compensation, and services
 - ▶ Structure compensation – level “reasonable” fee
 - ▶ Acknowledge that advisor is acting as a fiduciary



- ▶ Plan documents to Investment Committee
- ▶ Review, update Investment Committee charter
- ▶ Document Investment Policy Statement
- ▶ Negotiate fees
- ▶ Monitor plan and performance
- ▶ Document minutes, charts, records, RFPs
- ▶ Benchmark fees, services and providers



Document, document, document



- ▶ IPS should reflect practices of Investment Committee and Plan Sponsor
- ▶ Be consistent with Plan Document
- ▶ Ensure Plan Document being followed, updated, has not expired (per DOL)
- ▶ Document process, procedure and decision rationale
- ▶ Develop a Fee Policy Statement with IPS
 - ▶ Ensure participant fee equity

As assets grow, use of independent consultant as fiduciary for investment and due diligence process increasingly critical.



Any Questions?



www.bridgebay.com
925-743-0200



Ms. Linda Ruiz-Zaiko is President and Founder of Bridgebay Financial, Inc., an investment consulting firm formed in 1987 to serve corporations and institutional clients. Ms. Ruiz-Zaiko has over 25 years experience in the financial services industry. Prior to founding the firm, she was at Salomon Brothers serving corporations, institutional clients and money managers.

Ms. Ruiz-Zaiko has been published in the TMA/AFP Journal on the subjects of mutual funds for corporate cash investments, investment policy statements, evaluating costs of 401(k), 403 (b), 457 plans and investment manager searches. Ms. Ruiz-Zaiko has been a frequent guest speaker at the regional and TMA/AFP Conferences on the subjects of pension investing, institutional mutual fund investments, custodian searches, and managing money managers.

Well versed in domestic and international financial markets, she has advised Latin American and Asian central banks on foreign currency investments and foreign exchange. She began her career as an international banker to multinational corporations at Citicorp working in New York, San Francisco, Panama, and Mexico City.

She holds a BA from Case Western Reserve University and MBA in Finance from University of California, Berkeley and attended University of Madrid, Spain.



Ms. Barbara E. Williams, CFA, Managing Director, has over 25 years experience in investment management and capital markets as a plan sponsor, portfolio manager and corporate treasurer. Ms. Williams was an equity portfolio manager at Kingsley Jennison McNulty & Morse, Inc., and Wells Fargo Investment Advisors.

She was a plan sponsor for 401(k) and pension plans at QualMed Plans for Health, Wells Fargo & Co. and Kaiser Aluminum & Chemical Corporation.

As Managing Director of the Moldaw Family Office (Gymboree Corporation), Ms. Williams was responsible for equity and fixed income investment manager searches, asset allocation, portfolio diversification strategies and performance monitoring. Moldaw Family responsibilities included estate planning, trusts, insurance programs, tax accounting and record keeping.

As Director of Investor Relations and Assistant Treasurer at Gymboree Corporation she oversaw cash management, investment management, banking relations, and capital structure issues. Ms. Williams also managed the Investor Relations Department and presented company results at analysts' and institutional investors' meetings in Europe and the United States.

Ms. Williams holds a MBA in Finance from University of California, Berkeley and BA in Economics from Stanford University. She is a Chartered Financial Analyst (CFA) and member of the Security Analysts of San Francisco.