

Alignment of Principles From Trustee to Manager

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Hogan Conference Center

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COMMONWEALTH OF MASSACHUSETTS

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ALIGNMENT OF PRINCIPLES FROM TRUSTEE TO MANAGER

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DUAL ROLES OF PENSION BOARDS

- Client of Outside Service Providers
- Service Provider for Beneficiaries

Alignment of ethical conduct and expectations across both roles is important

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SESSION OUTLINE

- Who is CFA Institute
- Why Ethics and Professional Standards Matter
- Applying CFA Institute Codes
- Making Thoughtful Decisions
- Conclusion and Questions

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NOTES:				

CFA INSTITUTE: A GLOBAL ORGANIZATION

Members ► 134,000+ investment professionals in 151 countries; 127,000+ hold the CFA charter (August 2015)

Societies 145 in 70 countries

Candidates ► More than 221,000 registrations for the three levels of exam in last fiscal year from 180+ countries

Offices New York, London, Hong Kong, Charlottesville (VA), Beijing, Mumbai, Brussels

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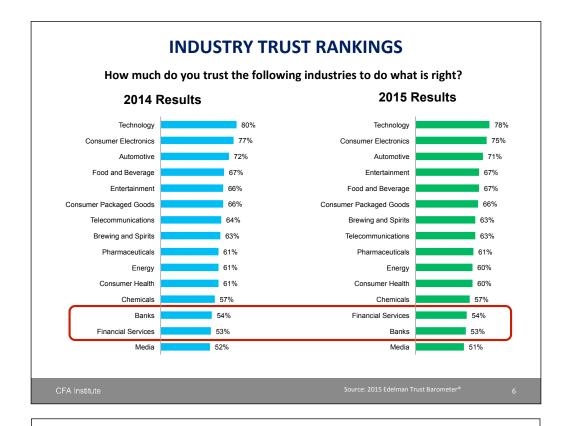
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CFA INSTITUTE: OUR MISSION

To lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

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WHY DO ETHICS & PROFESSIONAL STANDARDS MATTER?

- Well-functioning, efficient capital markets depend on the trust of the participants
- That's why CFA Institute develops and administers codes and standards that guide the investment industry
- These standards help ensure all investment professionals place client interests first

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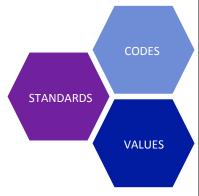
CODES & STANDARDS

CFA Institute codes of conduct maintain that you must:

- Place the integrity of the profession and the interests of clients above your own
- Act with integrity, competence, and respect
- Maintain/develop professional competence

Standards of professional conduct cover:

- Professionalism/integrity of the capital markets
- Duties to clients and employers
- Investment analysis and recommendations
- Conflicts of interest and your responsibilities



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FUNDAMENTAL ETHICAL PRINCIPLES

- Client interests come first
- Preservation of confidentiality
- Avoid/manage conflicts of interest
- Full and fair disclosure
- Fair dealing
- Reasonable care and prudent judgment
- Maintain independence and objectivity

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CONDUCT OF BOARD MEMBERS



- Global Code
- Focused on Personal Duties as Trustee
- Principle—based standards supported by guidance
- Covers: Competence, Conflicts, & Loyalty

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WORKING GROUP REPRESENTATION

- Council of Institutional Investors (US)
- •National Association of Pension Funds (UK)
- Organization of Economic Cooperation and Development (OECD)
- Swiss Association of Pension Funds
- Hong Kong Retirement Schemes Association
- •The Dutch Association of Industry-wide Pension Funds
- •Other industry professionals from Canada, Japan

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NOTES:		

CLIENTS INTEREST COME FIRST

1.Act in good faith and the best interest of the scheme participants and beneficiaries.

- •Consider different types of beneficiaries and participants
- Hold their interests above interests of plan sponsor
- •Do not be swayed by outside interests

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REASONABLE CARE AND PRUDENT JUDGMENT

2.Act with prudence and reasonable care.

- Avoid harm to scheme participants & beneficiaries
- Act in good faith
- Follow scheme parameters
- •Rely on third party service providers
- Delegation to internal professional experts

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NOTES:			

REASONABLE CARE AND PRUDENT JUDGMENT

- 3.Act with skill, competence, and diligence.
 - •Knowledge of: Policies, strategies, investments, etc.
 - Educational, training opportunities
 - •Seek appropriate professional guidance

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AVOID/MANAGE CONFLICTS OF INTEREST

- **4.** Maintain independence and objectivity by avoiding conflicts of interest.
 - Avoid appearance of impropriety
 - •Place duty to pension scheme ahead of appointing entity
 - Avoid personal conflicts
 - Avoid relationship with service providers
 - Refuse gifts
 - Disclose conflicts
 - •Ensure policies and procedures in place to address conflicts

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NOTES:		

CLIENTS INTERESTS COME FIRST

- 5. Abide by all applicable laws, rules, and regulations, including the terms of the plan documents.
 - Consult with professional advisors
 - •Ensure updated compliance procedures
 - Report suspected illegal activities, irregularities

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FAIR DEALING

- 6.Deal fairly, objectively, and impartially with all participants and beneficiaries.
 - •No preferential treatment to a particular class
 - Balance interests of all beneficiaries and participants

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NOTES:			

CLIENTS INTERESTS COME FIRST

- 7. Take actions that are consistent with the established mission of the scheme and the policies that support that mission.
 - Draft and review policies addressing risk tolerances, return objectives, liquidity requirements, tax considerations, etc.
 - •Take action consistent with policies
 - Consider suitability of investments
 - Achieve appropriate investment blend

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REASONABLE CARE AND PRUDENT JUDGMENT

- 8.Regularly review the efficiency and effectiveness of the scheme's success in meeting its goals, including assessing the performance and actions of scheme service providers including investment managers, consultants, actuaries, etc., on a regular basis.
 - Develop rules for employing investment managers
 - Ensure managers employ qualified personnel
 - •Ensure managers comply with professional standards
 - Develop monitoring and control procedures
 - Review performance of managers

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CONDUCT OF MANAGERS



- Voluntary best practice code of conduct for firms
- Principle-based, allows
 flexibility in implementation
- Global standard of professional conduct

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ASSET MANAGEMENT CODE ADVISORY COMMITTEE

- •Al Meezan Investment Management Limited
- Australian Super
- •Callan Associates, Inc.
- •Franklin Templeton Investments
- •JK ACE Partners
- •JP Morgan Asset Management
- New Amsterdam Partners
- Pictet Asset Management Limited
- •TD Asset Management
- University of California

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ASSET MANAGER CODE OF PROFESSIONAL CONDUCT Loyalty to Clients • Client Interest First • Confidentiality Investment Process & Actions • Reasonable • Prudent • Deal Fairly Trading • Inside Information • Best Execution

ASSET MANAGER CODE OF PROFESSIONAL CONDUCT Risk Management, Compliance, and Support • Appropriate Policies • Maintain Records • Business Continuity Plan Performance and Valuation • Fair and Timely Disclosures • Accurate, Complete, and Material • Conflicts of Interest • Investment Process

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PRESERVATION OF CONFIDENTIALITY

- 9. Maintain confidentiality of scheme, participant, and beneficiary information.
 - Individual information
 - Competitive ability (transactions, holdings, etc.)
 - Privacy policies relating to handling such info

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FULL AND FAIR DISCLOSURE

- 10.Communicate with participants, beneficiaries, and supervisory authorities in a timely, accurate, and transparent manner.
 - Full and fair disclosure
 - No misrepresentation
 - Regular communication
 - Plain language, effective communication

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ETHICAL DECISION MAKING FRAMEWORK



Identify

- Ethical principles
- Duties to others
- Important facts
- Conflicts of interest

Consider

- Situational influences
- Alternative actions
- Additional guidance

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PRACTICAL SUGGESTIONS

- Act with integrity, 24 hours a day, 7 days a week
- Always place client interests above your own
- Commit to global best practices of ethical and professional conduct
- Hold others accountable for their unethical behavior

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Visit our website for more information on CFA Institute codes and standards

www.cfainstitute.org

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