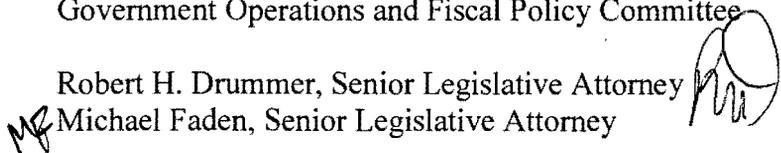


**MEMORANDUM**

October 4, 2012

TO: Government Operations and Fiscal Policy Committee

FROM: Robert H. Drummer, Senior Legislative Attorney

 Michael Faden, Senior Legislative Attorney

SUBJECT: **Worksession:** Bill 24-12, Board of Investment Trustees – Consolidated Retiree Health Trust Board of Trustees – Delegation - Attendance

**Expected attendees:** Jeff Sharpe, BIT Chair  
Linda Herman, Executive Director, BIT

Bill 24-12, Board of Investment Trustees – Consolidated Retiree Health Trust Board of Trustees – Delegation - Attendance, sponsored by the Council President at the request of the County Executive, was introduced on July 31, 2012. A public hearing was held on September 18.

**Background**

Bill 24-12 would amend the County's retirement law to permit the Board of Investment Trustees (BIT), which oversees the investment programs for the County's Employee Retirement Plans, including the Employees' Retirement System, Retirement Savings Plan and the Deferred Compensation Plan, to delegate certain duties as it deems appropriate and consistent with its fiduciary duties and its written policies and procedures. The Bill would authorize the Board to delegate certain duties, but would not require a delegation of any duties.

The Bill would also amend the current law governing automatic removal of a member of either the Board of Investment Trustees or the Consolidated Retiree Health Trust Board of Trustees for missing meetings. Bill 24-12 would make the automatic removal laws for these Boards consistent with the law governing all other County boards and commissions.

**Public Hearing**

The lone speaker at the September 18 public hearing, Jeff Sharpe, Chair of the Board of Investment Trustees, supported the Bill on behalf of the Board. See ©13.

## Issues

### 1. How does the Board currently operate?

County Code §33-59 established the BIT as a 13-member Board with the following members:

- a. the Director of Management and Budget;
- b. the Director of Finance;
- c. the Director of Human Resources;
- d. the Staff Director of the County Council;
- e. a representative nominated by the union representing employees in the OPT and SLT bargaining units (MCGEO);
- f. a representative nominated by the union representing fire and rescue employees (IAFF);
- g. a representative nominated by the union representing police employees (FOP);
- h. an active employee who is not a member of a bargaining unit;
- i. a retired County employee;
- j. 2 members of the public recommended by the Council who are knowledgeable in pensions, investments, or financial matters; and
- k. 2 members of the public recommended by a citizens group in the County who are knowledgeable in pensions, investments, or financial matters.

The Board is supported by a professional staff that includes an executive director and 2 senior portfolio managers, 1 portfolio manager, 2 investment analysts, and 1 compliance analyst. Each of these staff members (with the exception of the compliance analyst) are chartered financial analysts. See the organization chart for the County Retirement Plans at ©14. The Board also retains various independent consultants for investment advice and receives legal advice from the County Attorney's Office and outside counsel. The Board has adopted written policies governing investments and the procurement of other service providers. The Board currently oversees the investment of approximately \$3.5 billion.

The current division of responsibilities for governance between the Board, the staff, and independent consultants is described at ©24-25. The current division of responsibilities for investment decisions is described at ©22-23. Investment decisions begin with the Board's adoption of general investment policies and strategies for asset allocation. Implementing the asset allocation requires the selection of investment managers. The largest impact the Board has on the investment program is through setting the asset allocation. The Board estimates that approximately 93% of returns over the last 10 years were due to asset allocation rather than investment manager selection. See ©20.

Investment of retirement assets has grown more complicated in recent years as additional asset classes have been added to the portfolio. In 2006, the Board had investments across 4 different asset classes. In 2011, the list of asset classes and strategies used by the Board had grown to 11. See ©19. As the number of asset classes and investment strategies has grown, the amount of expertise needed to make investment choices has grown. The Board has responded by delegating certain tasks to the professional staff while still retaining the final approval of new investment managers. In 2007, the Board delegated authority to the professional staff to select a

new investment manager for final Board approval. A brief history of the Board's delegation of authority is at ©21.

## 2. What type of authority would the Board consider delegating if the Bill is enacted?

The Bill is an enabling act that would permit, but not require, the Board to delegate duties it deems prudent, consistent with its fiduciary duty. If the Bill is enacted, the final decision on what types of decisions should be delegated to professional staff would be made by the Board and documented in a written policy. The Board is currently evaluating types of decisions it may delegate to its professional staff, including execution of contracts and the decision to hire and fire individual investment managers. This would be consistent with some of the larger pension systems, such as the Maryland State Retirement and Pension System, and many corporate, endowment, and Taft Hartley plans. The Board of Trustees for the Maryland State System has delegated the decision to hire and fire individual investment managers to the Chief Investment Officer.<sup>1</sup>

Each trustee has a fiduciary duty to “act with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes.” See Code §33-61C(c). This duty of prudence may require a fiduciary to delegate certain duties to a person with specialized expertise, retaining oversight, if the fiduciary lacks the expertise to make an informed decision. The growing complexity of the investment universe may be placing unreasonable requirements on a BIT member who is not an investment professional absent the authority to delegate certain decisions. The method used by the Board to select a new investment manager is described at ©29-30. The Board recognized the complexity of this decision in 2007 when it authorized the professional staff to select a new manager for final approval by the Board rather than interviewing a short list of finalists selected by the professional staff. Bill 24-12 would authorize the Board to take the final step to delegate this decision to the professional staff. **Council staff recommendation:** enact the Bill as introduced.

This packet contains:	Circle #
Bill 24-12	1
Legislative Request Report	5
Transmittal Memo from County Executive	7
Fiscal and Economic Impact Statement	8
Testimony of Jeff Sharpe	13
Organization Chart – County Retirement Plans	14
BIT Governance PowerPoint	15
Staff Investment Committee Process	29

<sup>1</sup> See the Maryland Investment Policy Manual at: <http://www.sra.maryland.gov/Agency/Investment/Downloads/InvestmentInterimPolicyManual.pdf>

Bill No. 24-12  
Concerning: Board of Investment  
Trustees – Consolidated Retiree  
Health Trust Board of Trustees –  
Delegation - Attendance  
Revised: July 16, 2012 Draft No. 1  
Introduced: July 31, 2012  
Expires: January 31, 2014  
Enacted: \_\_\_\_\_  
Executive: \_\_\_\_\_  
Effective: \_\_\_\_\_  
Sunset Date: None  
Ch. \_\_\_\_\_, Laws of Mont. Co. \_\_\_\_\_

## COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

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By: Council President at the Request of the County Executive

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**AN ACT** to:

- (1) authorize the Board of Investment Trustees to adopt written policies and procedures to delegate certain duties;
- (2) modify the laws concerning excused absences for a member of the Board of Investment Trustees;
- (3) modify the laws concerning excused absences for a member of the Consolidated Retiree Health Trust Board of Trustees;
- (4) generally amend the law regarding the Employees' Retirement System, Retirement Savings Plan and Deferred Compensation Plan; and
- (5) generally amend the law regarding the Consolidated Retiree Health Benefits Trust Fund.

By amending

Montgomery County Code  
Chapter 33, Personnel and Human Resources  
Sections 33-59, 33-60, 33-125, 33-145, and 33-160

<b>Boldface</b>	<i>Heading or defined term.</i>
<u>Underlining</u>	<i>Added to existing law by original bill.</i>
[Single boldface brackets]	<i>Deleted from existing law by original bill.</i>
<u>Double underlining</u>	<i>Added by amendment.</i>
[[Double boldface brackets]]	<i>Deleted from existing law or the bill by amendment.</i>
* * *	<i>Existing law unaffected by bill.</i>

*The County Council for Montgomery County, Maryland approves the following Act:*



28 behalf of the Board. [A person may rely in good faith on an act  
29 of the chair as legally valid.]

30 (2) The vice chair must perform the duties and exercise the powers  
31 of the chair when the chair is [absent from the County or  
32 disabled] unavailable, or the Board determines is otherwise  
33 unable to perform the duties of the chair.

34 (3) The secretary must record the proceedings and actions of the  
35 Board and may certify a document or action of the Board. A  
36 person may rely in good faith on the secretary’s certification as  
37 proof of the document or action.

38 (h) *Meetings and actions.*

39 \* \* \*

40 [(5) The Board may authorize a trustee to execute instruments on  
41 behalf of the Board. The authority must be in writing and  
42 specifically describe the instrument and how the trustee must  
43 execute the instrument.]

44 \* \* \*

45 **33-60. The board of investment trustees-Powers and duties.**

46 \* \* \*

47 (i) Delegation of duties. The Board may delegate its duties to the  
48 Executive Director or a similarly situated County employee as it  
49 deems appropriate and consistent with its fiduciary duties in a written  
50 policy and procedure. If the Board has prudently delegated its duties  
51 and monitored the delegation, the trustees must not be liable for an act  
52 or omission made by its delegate.

53 **33-125. Powers and duties of the Board.**

54 \* \* \*

55 (i) Delegation of duties. The Board may delegate its duties to the  
56 Executive Director or a similarly situated County employee as it  
57 deems appropriate and consistent with its fiduciary duties in a written  
58 policy and procedure. If the Board has prudently delegated its duties  
59 and monitored the delegation, the trustees must not be liable for an act  
60 or omission made by its delegate.

61 **33-145. Powers and duties of the board.**

62 \* \* \*

63 (j) Delegation of duties. The Board may delegate its duties to the  
64 Executive Director or a similarly situated County employee as it  
65 deems appropriate and consistent with its fiduciary duties in a written  
66 policy and procedure. If the Board has prudently delegated its duties  
67 and monitored the delegation, the trustees must not be liable for an act  
68 or omission made by its delegate.

69 **33-160. Board of Trustees**

70 \* \* \*

71 (c) Vacancies.

72 (1) A trustee [who is absent from more than 25 percent of the  
73 scheduled meetings of the Board during any 12-month period  
74 has resigned from the Board. Scheduled meetings mean  
75 meetings held at least 7 days after notice of the meeting.] may  
76 be automatically removed for missing meetings as described in  
77 Section 2-148(b).

78 \* \* \*

79

## LEGISLATIVE REQUEST REPORT

Expedited Bill 24 -12

*Board of Investment Trustees – Consolidated Retiree Health Trust Board of Trustees –  
Delegation - Attendance*

**DESCRIPTION:** The Bill amends the County's retirement law to allow the Board of Investment Trustees, which oversees the investment programs for the County's Employee Retirement Plans, including the Employees' Retirement System, Retirement Savings Plan and the Deferred Compensation Plan, to delegate certain duties as it deems appropriate and consistent with its fiduciary duties and its written policies and procedures.

The Bill also amends the attendance provisions of the Board of Investment Trustees, and the Board of Trustees overseeing the Consolidated Retiree Health Benefits Trust, to make them consistent with those that currently apply under County Code Section 2-148 to all other Boards, Commissions and Committees and bases attendance on the number of missed meetings.

**PROBLEM:** The Bill would permit the Board of Investment Trustees to delegate certain duties, such as the execution of contracts, if it deems it appropriate and consistent with its fiduciary duties, resulting in a better alignment of the roles and responsibilities of the Board and its Staff in the oversight of the investment programs and to further enhance the efficiency of the operation of the programs.

Section 33-59 (which governs the Board of Investment Trustees) and Section 33-160 (which governs the Board of Trustees for the Consolidated Retiree Health Trust provides that a trustee has resigned for missing more than 25% of scheduled meetings in a 12 month period. While the County Code only requires that the Boards meet four times a year, both Boards currently meet six times a year. The Boards would like to amend the attendance requirements to the provision in County Code Section 2-148 which bases removal on the number of missed meetings.

**GOALS AND  
OBJECTIVES:**

The goal of the Bill is to provide the Boards with the necessary authority to meet its fiduciary duties in overseeing the investment programs for the County's retirement plans, and the Consolidated Retiree Health Benefits Trust, in the appropriate manner.

**COORDINATION:** The Board of Investment Trustees, the Board of Trustees, and the County Attorney's Office have reviewed this Bill.

**FISCAL IMPACT:** Office of Management and Budget

**ECONOMIC IMPACT:** Office of Management and Budget

**EVALUATION:** N/A

**EXPERIENCE ELSEWHERE:** **Numerous other retirement plans, including the Maryland State Retirement and Pension System,** currently provide for the Boards, overseeing the investment of retirement trust fund assets, to delegate certain functions to the Executive Director, or other staff, if such delegation is established in policies and procedures. The County's Chief Administrative Officer, in his role as Plan Administrator, currently has the authority within the Code to delegate his duties.

**SOURCE OF INFORMATION:** Linda Herman, Board of Investment Trustees, Board of Trustees  
Amy Moskowitz, Office of the County Attorney  
Morgan Lewis, outside legal counsel for the Board of Investment Trustees

**APPLICATION WITHIN MUNICIPALITIES:**N/A

**PENALTIES:** N/A

BILL

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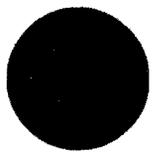


OFFICE OF THE COUNTY EXECUTIVE  
ROCKVILLE, MARYLAND 20850

Isiah Leggett  
County Executive

July 5, 2012

069243



TO: Roger Berliner, President  
County Council

FROM: Isiah Leggett   
County Executive

SUBJECT: Expedited Legislation - Board of Investment Trustees and Board of Trustees for  
the Consolidated Retiree Health Trust

RECEIVED  
MONTGOMERY COUNTY

2012 JUL -5 PM 2:33

I am attaching for the Council's consideration a bill that would amend the County's retirement law to allow the Board of Investment Trustees, which oversees the investment programs for the County's Employee Retirement Plans, including the Employees' Retirement System, Retirement Savings Plan and the Deferred Compensation Plan, to delegate certain duties as it deems appropriate and consistent with its fiduciary duties and its written policies and procedures.

The County Code establishes the Board of Investment Trustees in Section 33-59 and provides the Board the power to invest the assets of the retirement system, authority to direct the payment of benefits, and describes other actions to be taken in Sections 33-60 and 33-61. The Board has been advised by its legal counsel that the delegation of its duties is permitted under common law. However, the Board's legal counsel has advised it that the delegation authority should be provided in its governing document, the County Code. Numerous retirement plans, including the Maryland State Retirement and Pension System, currently provide for the Boards overseeing the investment of retirement trust fund assets to delegate certain functions to staff. This bill would allow for a similar delegation of duties as the Board deems appropriate and consistent with its fiduciary duties and its written policies and procedures.

The bill also changes the attendance requirements for both the Board of Investment Trustees and the Board of Trustees which oversees the assets of the Consolidated Retiree Health Benefits Trust to make them consistent with those that currently apply under County Code Section 2-148 to all other County Boards, Commissions and Committees.

Section 33-59 (which governs the Board of Investment Trustees) and Section 33-160 (which governs the Board of Trustees) provide that a trustee has automatically resigned when the trustee misses more than 25% of the scheduled meetings. While the County Code only requires that the Boards meet four times a year, each Board currently meets six times a year. The Boards would like to amend the attendance requirements to mirror the provision in County Code Section 2-148 which applies to all other County Boards, Commissions and Committees and bases attendance on the number of missed meetings.

Thank you for your prompt consideration of this bill.

Attachments

7

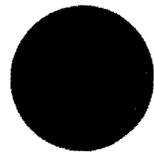
B 24-12



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ROCKVILLE, MARYLAND

069869



MEMORANDUM

August 20, 2012

TO: Roger Berliner, President, County Council

FROM: Jennifer A. Hughes, Director, Office of Management and Budget  
Joseph F. Beach, Director, Department of Finance

SUBJECT: Council Bill 24-12 - Board of Investment Trustees – Consolidated Retiree Health Trust Board of Trustees – Delegation

EP  
for

Attached please find the fiscal and economic impact statements for the above-referenced legislation.

JAH:nm

- c: Kathleen Boucher, Assistant Chief Administrative Officer
- Lisa Austin, Offices of the County Executive
- Joy Nurmi, Special Assistant to the County Executive
- Patrick Lacefield, Director, Public Information Office
- Alex Espinosa, Office of Management and Budget
- Linda Herman, Board of Investment Trustees
- Blaise DeFazio, Office of Management and Budget
- Naeem Mia, Office of Management and Budget
- David Platt, Department of Finance

RECEIVED  
MONTGOMERY COUNTY  
COUNCIL

2012 AUG 20 PM 3: 54

**Fiscal Impact Statement**  
Council Bill 24-12 - Board of Investment Trustees –  
Consolidated Retiree Health Trust Board of Trustees – Delegation

**1. Legislative Summary**

The proposed bill amends the County's retirement law to allow the Board of Investment Trustees, which oversees the investment programs for the County's Employee Retirement Plans, including the Employees' Retirement System, Retirement Savings Plan and the Deferred Compensation Plan, to delegate certain duties as it deems appropriate and consistent with its fiduciary duties and its written policies and procedures.

The bill also amends the attendance provisions of the Board of Investment Trustees, and the Board of Trustees overseeing the Consolidated Retiree Health Benefits Trust, to make them consistent with those that currently apply under County Code Section 2-148 to all other Boards, Commissions and Committees and bases attendance on the number of missed meetings.

**2. An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget. Includes source of information, assumptions, and methodologies used.**

There is no impact on revenues and expenditures.

**3. Revenue and expenditure estimates covering at least the next 6 fiscal years.**

There is no impact on revenues and expenditures.

**4. An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs.**

Not applicable. This bill does not affect retiree pension or group insurance costs.

**5. Later actions that may affect future revenue and expenditures if the bill authorizes future spending.**

The bill does not authorize future spending.

**6. An estimate of the staff time needed to implement the bill.**

No additional staff time is needed to implement the bill.

**7. An explanation of how the addition of new staff responsibilities would affect other duties.**

No new staff responsibilities are created as a result of this bill.

**8. An estimate of costs when an additional appropriation is needed.**

Not applicable.

**9. A description of any variable that could affect revenue and cost estimates.**

Not applicable.

**10. Ranges of revenue or expenditures that are uncertain or difficult to project.**

Not applicable.

**11. If a bill is likely to have no fiscal impact, why that is the case.**

The delegation and attendance provisions have no impact on revenues and do not generate any additional expenses.

**12. Other fiscal impacts or comments.**

None.

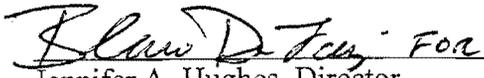
**13. The following contributed to and concurred with this analysis:**

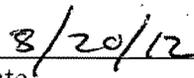
Linda Herman, Board of Investment Trustees

Akiko Kawashima, Board of Investment Trustees

Blaise DeFazio, Office of Management and Budget

Naeem Mia, Office of Management and Budget

  
\_\_\_\_\_  
Jennifer A. Hughes, Director  
Office of Management and Budget

  
\_\_\_\_\_  
Date

**Economic Impact Statement**  
Council Bill 24-12  
Board of Investment Trustees – Consolidated Retiree Health Trust  
Board of Trustees - Delegation

Background:

This proposed legislation (Bill) would:

1. authorize the Board of Investment Trustees to adopt written policies and procedures to delegate certain duties;
2. modify the laws concerning excused absences for a member of the Board of Investment Trustees;
3. modify the laws concerning excused absences for a member of the Consolidated Retiree Health Trust Board of Trustees;
4. generally amend the law regarding the Employees' Retirement System, Retirement Savings Plan and Deferred Compensation Plan; and
5. generally amend the law regarding the Consolidated retiree Health Benefits Trust Fund.

1. The sources of information, assumptions, and methodologies used.

Not applicable.

2. A description of any variable that could affect the economic impact estimates.

Not applicable. Bill 24-12 would have no economic impact.

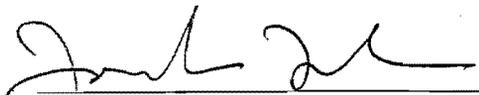
3. The Bill's positive or negative effect, if any on employment, spending, saving, investment, incomes, and property values in the County.

Not applicable. Bill 24-12 would have no economic impact.

4. If a Bill is likely to have no economic impact, why is that the case?

The Bill modifies current law so that procedures of the Board are consistent with the policies and procedures of other County Boards.

5. The following contributed to and concurred with this analysis: David Platt and Mike Coveyou, Finance

  
\_\_\_\_\_  
Joseph F. Beach, Director  
Department of Finance

8/20/12  
\_\_\_\_\_  
Date

**TESTIMONY FOR EXPEDITED BILL 24-12, PERSONNEL  
RETIREMENT TRUST FUNDS**

Good afternoon, for the record, I am Jeff Sharpe, Chair of the Board of Investment Trustees, which oversees the assets of the County’s three retirement plans. I am here today on behalf of the Board to testify in support of Bill 24-12, Personnel – Retirement Trust Funds.

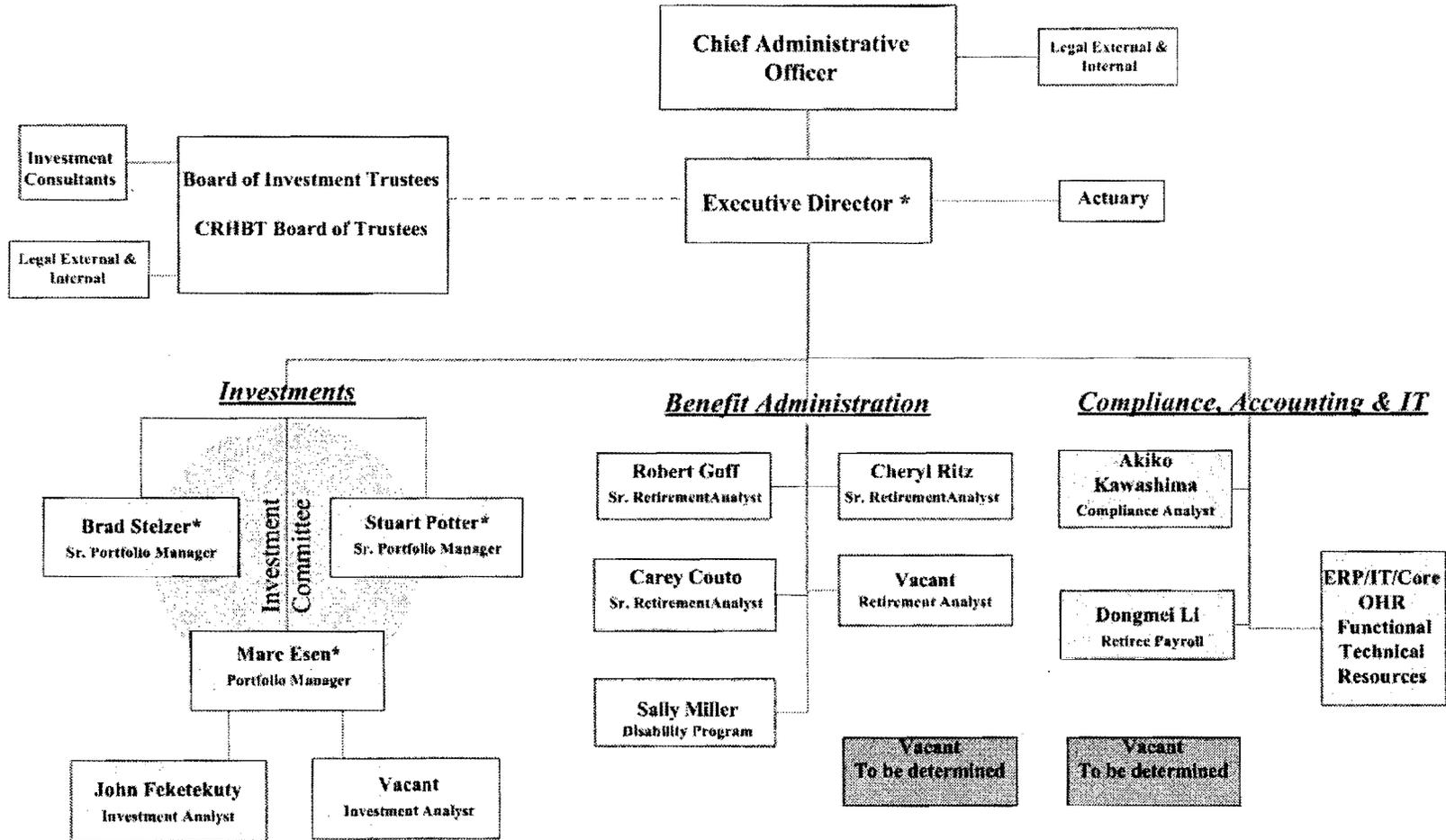
The proposed Bill would amend the County Code to permit the Board to delegate its duties as the Board deems appropriate and consistent with its fiduciary duties and its written policies and procedures.

The County Code establishes the Board of Investment Trustees and provides the Board the power to invest the assets of the retirement system, authority to direct the payment of benefits, and describes other actions to be taken. The Board has been advised by its legal counsel that the delegation of its duties is permitted under common law. However, the Board’s counsel has advised them that the delegation authority should be provided in its governing document, the County Code. Numerous retirement plans, including the Maryland State Retirement and Pension System, currently provide for the Boards, overseeing the investment of retirement trust fund assets, to delegate certain functions to staff. This bill would allow for a similar delegation of duties by granting the Board the authority to delegate as it deems appropriate and consistent with its fiduciary duties and its written policies and procedures.

The bill also would change the attendance requirements for the Board to make them consistent with those that currently apply under County Code Section 2-148 to all other County Boards, Commissions and Committees.

We look forward to working with the Council in its deliberations on this legislation.

# Montgomery County Employee Retirement Plans



\* Investment Committee Member



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# **Governance**

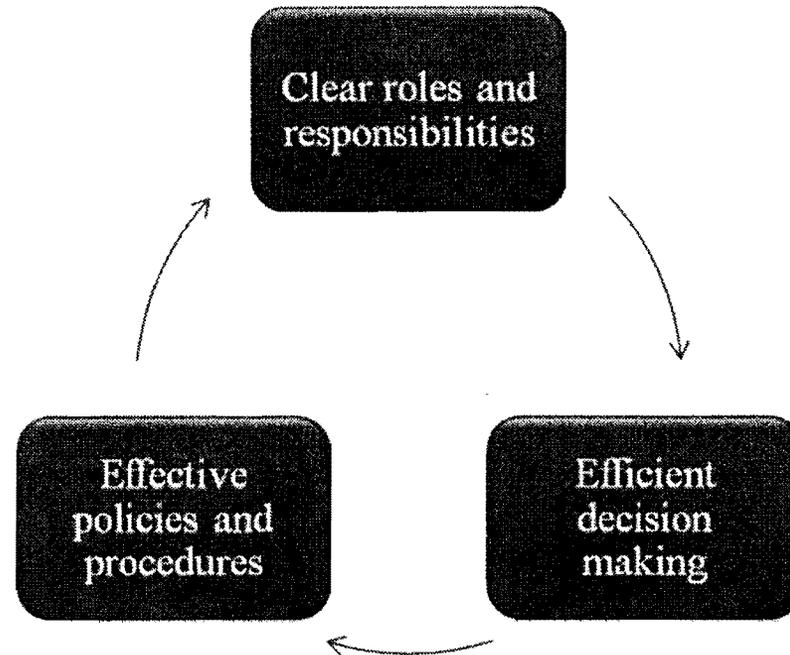
## **Board of Investment Trustees**

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September 2012

**Montgomery County Employee Retirement Plans**

# Plan Governance



- *Good governance does not guarantee a good outcome, but “a sound process has a better chance of leading to a good outcome than a poorly designed process.” (Russell Investments, an investment management firm)*

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# Duty of Prudence

*Montgomery County Code 33-61C* - A fiduciary must discharge the fiduciary's duties regarding the trust **with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes.**

*Adherence to this statute includes:*

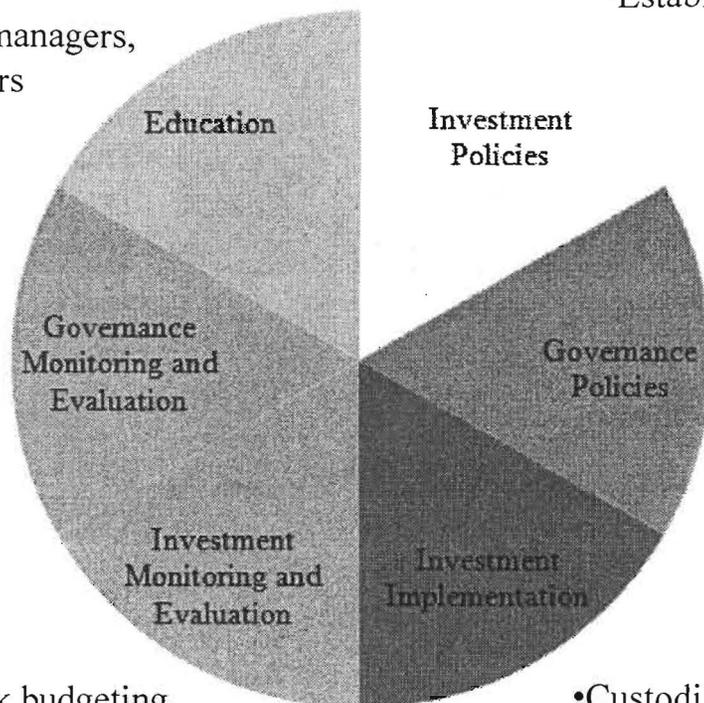
- Focusing on conduct - how was the investment chosen & what the process was rather than what was the result.
- Examining the scope and diligence of the fiduciary's investigation.
- Requiring the standard of one familiar with the topic under consideration, not the standard of a lay person.
- Requiring the fiduciary to seek expert advice if a fiduciary lacks experience/education with regard to a particular matter.

# Trustee Roles

- Learning about new asset classes/strategies
- Gaining perspective from managers, consultants, strategic partners

- Set target asset allocation
- Establish risk budget

- Review budget status
- Legal monitoring



- Determine roles and responsibilities
- Approve budgets

- Review attribution, risk budgeting
- Manager and cost monitoring

- Custodian and consultant selection
- Asset class & portfolio structure
- New strategy & investment vehicles
- ***Manager selection/terminations \****
- ***Contract execution and modifications \****

\* = Board is currently evaluating delegation of these items to Staff.

# Trustee Challenges

- Changes in asset allocation and strategies:

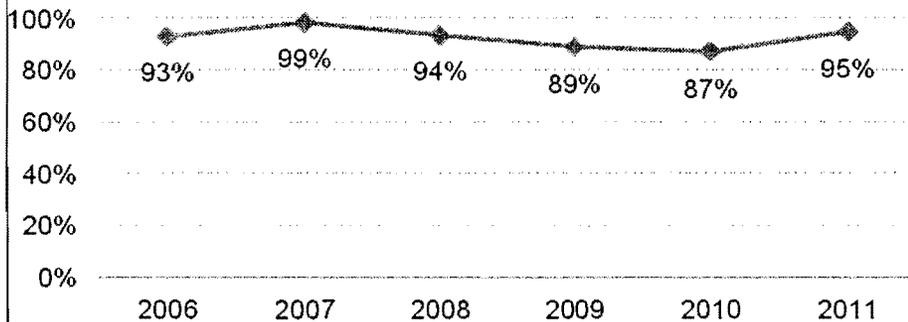
	<u>June 30, 2006</u>	<u>June 30, 2011</u>
Equities (long-only)	X	X
Equities (long/short)		X
Fixed Income	X	X
Inflation-Linked Bonds	X	X
Commodities		X
Currencies		X
Private Equity (fund-of-funds)	X	X
Private Equity (direct)		X
Private Real Assets		X
Hedge Funds (fund-of-funds)		X
Hedge Funds (direct)		X

- *Additional asset classes/markets*
- *Increased manager evaluation & monitoring*
- *Additional education needs*
- *More technical nature of investments places less emphasis on in-person presentations.*
- *Volatility in investments and opportunity types requires fast action.*

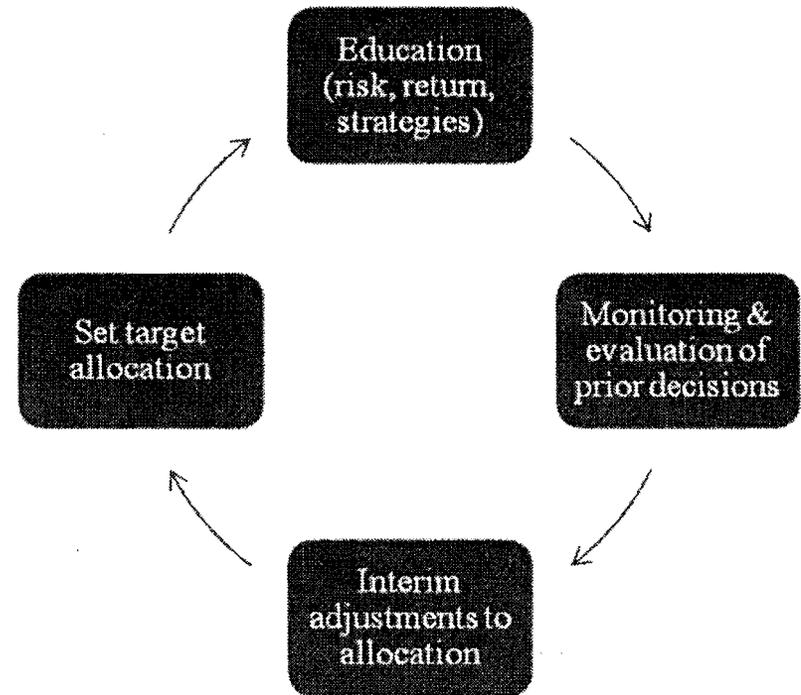
# Impact of Decisions

- It is our experience that the largest impact the Board has on the investment program is through setting the asset allocation.

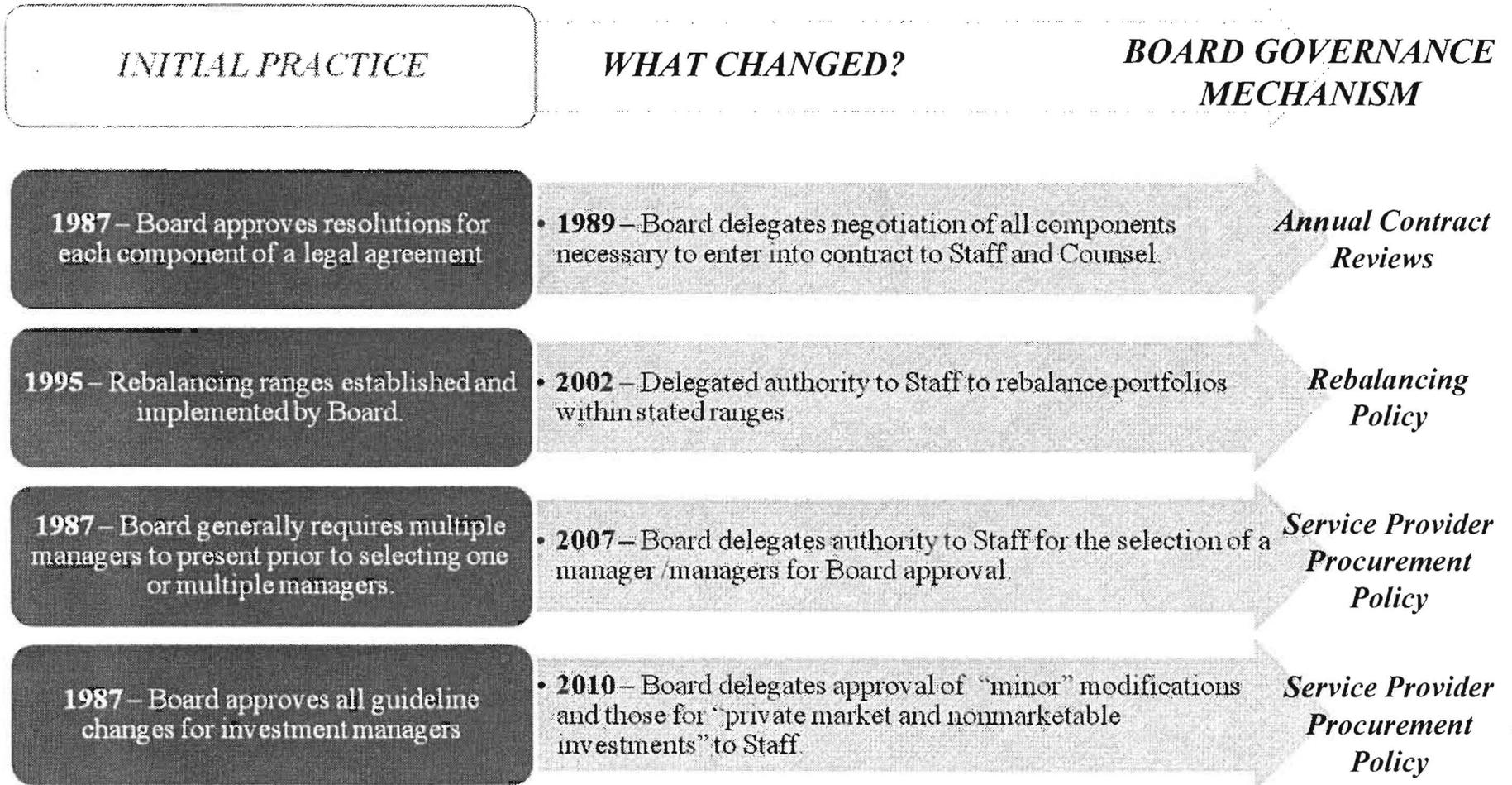
**MCERS % of Rolling 10-Yr Return from Asset Allocation  
(Average 93%)**



- Although the asset allocation decision is made only periodically, the effort must be ongoing and iterative to maximize the likelihood of a good decision:



# History – Shifts in Delegation



# Roles & Responsibilities – Investment

AREA	ROLE	BOARD	STAFF	INDEPENDENT 3 <sup>RD</sup> PARTY
Policy Decisions	Determine Investment Objectives and Constraints	Approves	Input	Recommends (consultants)
	Conduct Asset/Liability Study, Set Target Asset Allocation and Ranges	Approves	Input	Recommends (consultants)
	Establish Risk Budget for Beta and Alpha	Approves	Input	Recommends (consultants)
	Select Benchmarks for Performance Measurement	Approves	Input	Recommends (consultants)
	Establish and Modify Policies	Approves	Recommends	Input (counsel/consultants)
Implementation	Custodian and Consultant Selection	Approves	Assist in Evaluation	Input (counsel/consultants)
	New Strategies/Investment Vehicles	Approves	Recommends	Recommends (consultants)
	Portfolio and Asset Class Structure	Approves	Recommends	Recommends (consultants)
	Manager Hiring/Terminations	Approves	Recommends	Recommends (consultants)
	Contract Execution/Amendments (inc. investment guideline modifications)	Approves	Recommends	Reports (counsel) Input (consultants) Input (investment mgrs)
	Execution of rebalancing and liquidity management programs	Monitors/Reviews	Approves	Input (consultants)

# Roles & Responsibilities – Investment

AREA	ROLE	BOARD	STAFF	INDEPENDENT 3 <sup>RD</sup> PARTY
Monitoring and Reporting	Evaluation of Investment Policy Decisions (attribution, risk budgeting)	Monitors/Reviews	Reports	Reports (consultants/custodian)
	Monthly Investment Performance Evaluation (overall, sector-level, manager-level)	Monitors/Reviews	Reports	Reports (custodian & investment mgrs)
	Quarterly Investment Performance Evaluation (overall, sector-level, manager-level)	Monitors/Reviews	Reports	Reports (consultants/investment mgrs)
	Annual Review of Asset Class	Reviews	Reports	Input (consultants)
	Investment Manager Oversight	Monitors/Reviews	Reports	Reports (consultants)
	Peer and Benchmark Comparison	Monitors/Reviews	n/a	Reports (custodian/consultants)
	Quarterly Investment Activity (additions, withdrawals and terminations)	Monitors/Reviews	Reports	n/a

# Roles & Responsibilities – Governance

AREA	ROLE	BOARD	STAFF	INDEPENDENT 3 <sup>RD</sup> PARTY
Policy Decisions	Determine Governance (roles and responsibilities)	Establish and Approves	Input/Facilitate Discussion	Input (consultants/counsel)
	Annual Operating Budget	Approves	Input	Input (consultants)
	Establish and Modify Policies	Approves	Input	Input (counsel/consultants)
	Delegation of Authority	Establish	n/a	n/a
Monitoring and Reporting	Annual Vendor Evaluations	Reviews	Transmits	Reports (all vendors)
	Contract Execution and Amendments	Reviews	n/a	Reports (counsel)
	Budget Review	Reviews	Reports	n/a
	Executive Director Performance Evaluation	In conjunction with CAO	n/a	CAO in conjunction with Board

# Roles & Responsibilities – Governance

AREA	ROLE	BOARD	STAFF	INDEPENDENT 3 <sup>RD</sup> PARTY
Compliance	Ethics Commission Financial Disclosure Statement	Required Filing	Required Filing	n/a
	Board's Standards of Professional & Ethical Conduct	Required Filing	Required Filing	Required Filing (counsel)
	Semi-Annual Risk and Quarterly Compliance	Monitors/Reviews	Transmits	Reports (all vendors)
	Due Diligence and Continuing Education Travel Requests	Approves	Transmits	n/a
	Annual Disclosure	Monitors/Reviews	Transmits	Reports (all vendors)

# Staff Investment Committee

## Composition:

- Executive Director (*Linda Herman*)
- Senior Portfolio Manager – Fixed Income & Opportunistic (*Stuart Potter*)
- Senior Portfolio Manager – Private Markets (*Brad Stelzer*)
- Portfolio Manager – Public Equities and Commodities (*Marc Esen*)

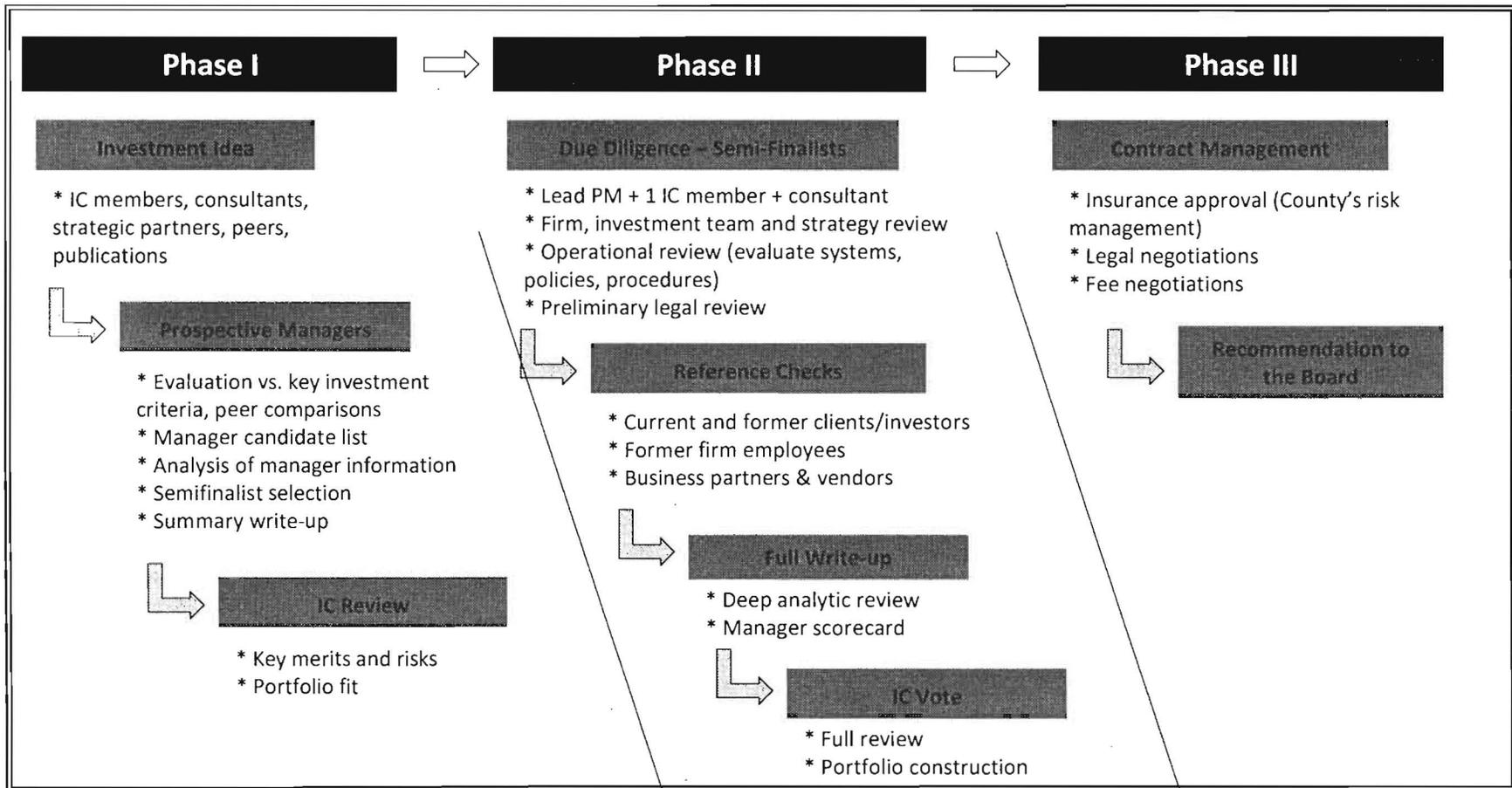
## Structure:

- Elected Officers (annually)
  - Chair sets agenda, formulates materials w/members & conducts the meetings
  - Secretary takes minutes that are later reviewed by all members
  - Portfolio Mgrs present issues related to their portfolios
- Meeting Format
  - Agenda and materials provided to committee members prior to meeting
  - Meet every 2 weeks or ad hoc, as needed
  - Board Consultants input as needed

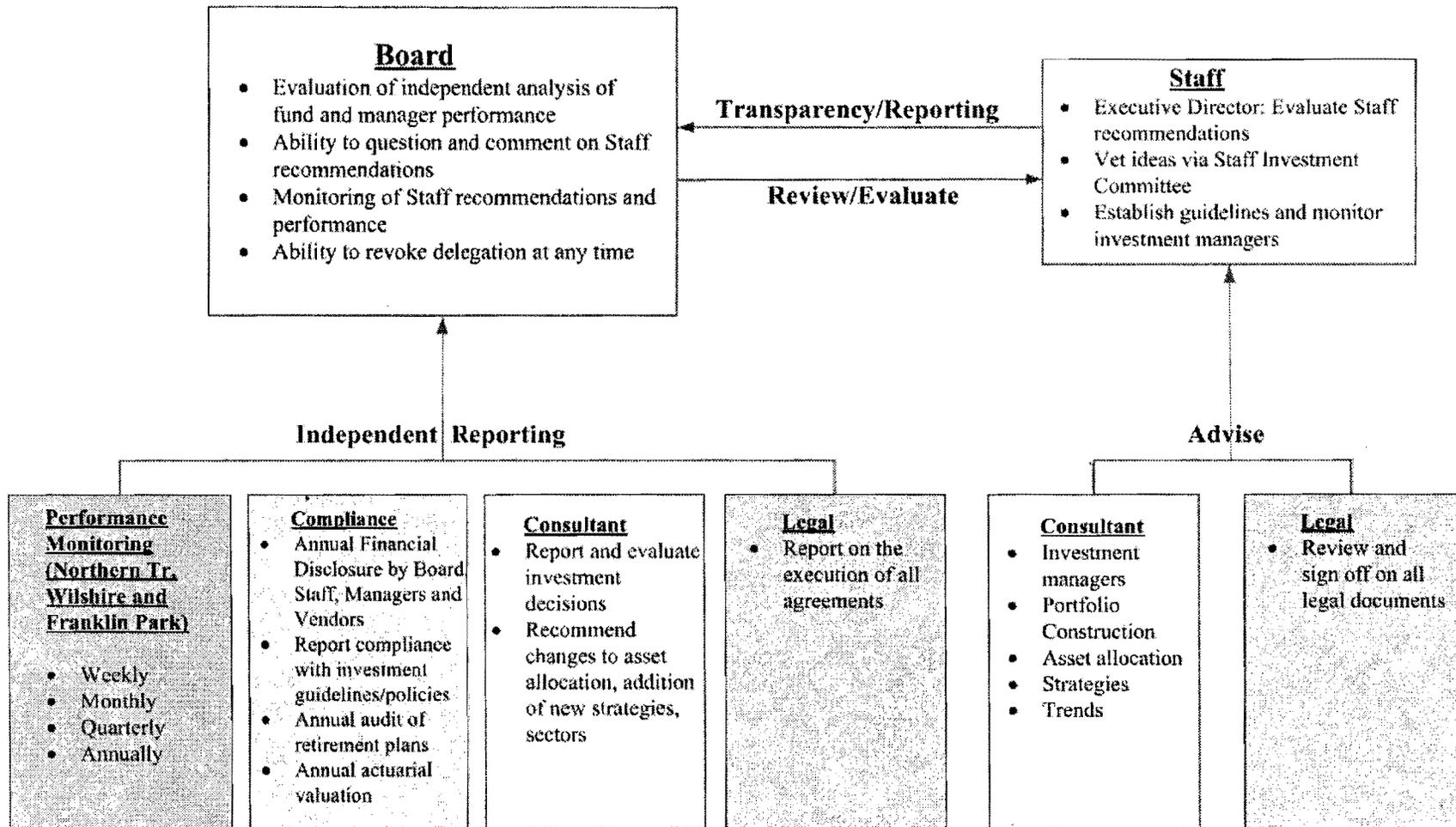
## Roles and Responsibilities:

- Policy Recommendations
- Risk Management
- Rebalancing & Liquidity Management
- All members provide feedback on all projects
- Asset Allocation/Strategy Recommendations
- Review of investment manager hiring/termination recommendations or adjustment of the assets under management of a current manager

# Staff Investment Committee – Diligence Process



# Checks & Balances



# Staff Investment Committee (IC) Process

## Sands Capital

*(IC actions shown in bold/italics)*

### **Phase I:**

Nov 2010 – Jan 2011

#### ***Investment Ideas***

Staff and Wilshire analyze performance, account departures and management issues at Numeric. Both on-site and off-site meetings are conducted with Numeric as well as other 130/30 managers. Portfolio Manager (PM) presents recommendation to IC to terminate Numeric's 130/30 mandate. ***IC approves recommendation***

January 2011

Attachment – 1

Board approves Staff's recommendation to terminate Numeric' 130/30 mandate.

Jan – March 2011

IC reviews PM's analysis of alternative investment options as possible alpha sources within Large Cap equities. PM recommends issuing an RFI for a Large Cap Alpha Search. ***IC approves recommendation***

March 2011

Attachment – 2

Board approves Staff's recommendation to issue an RFI for a Large Cap Alpha Search.

April – May 2011

Attachment – 3A

#### ***Selection of Prospective Managers to Receive RFI***

Criteria was determined by the IC and Wilshire. Quantitative analysis using Wilshire Compass resulted in 1,117 products meeting the initial criteria. The attached spreadsheet is sorted by the 3 year Information Ratio (a measure of risk adjusted return) for each benchmark product and reflects the following:

- Products highlighted in yellow represent top quartile Information Ratios
- Red area represents less than 2% excess return for three year rolling periods

Attachment – 3B

51 products (49 firms) selected based on the following criteria:

- Consistent >2% excess returns over three year rolling periods
- Input from the Wilshire Research Team based on their due diligence Requests for Information sent to 23 firms representing 24 products based on the following:

Attachment – 3C

- Quantitative and qualitative analysis conducted by Staff and Wilshire
- Comments and concerns on eliminated products
- Summary of RFI response

Attachment – 3D

Semi-finalists identified by IC and Wilshire for follow-up calls – 7 products

- 5 products selected
- Summary of strength/concerns – reason for eliminating 2 products

**Phase II:**

May – Sep 2011

Attachment – 4

***Due Diligence***

IC and Wilshire evaluate finalists – 5 products

- Site visits conducted
- Summary of strength/concerns
- Eliminated 3 products

August – Sep 2011

Attachment – 5

***Reference Checks***

Reference calls of current and former clients conducted by IC members

September 2011

Attachment – 6A

***Full Write Up and Staff Investment Committee Vote***

IC reviews recommendation and Board presentation. ***IC approves recommendation***

Attachment – 6B

Recommended portfolio construction. ***IC approves recommendation***

**Phase III:**

September 2011

Attachment – 7

Attachment – 7A

***Contract Management***

Insurance review by County Risk Management

Legal negotiations by Staff and County Attorney

Attachment – 7B

Copy of Contract w/Attachments

September 2011

Attachment – 8A

Attachment – 8B

***Recommendation to Board***

Wilshire recommendation

Staff recommendation