

# ***Sewerage & Water Board of New Orleans***



***Chief Investment Officer's Report  
to Pension Committee  
June 19, 2017***

# Today's Agenda

- Feedback from “listening campaign;” one-on-one meetings with each member of the Pension Committee
- Action Plan
  - **Governance Structure Matrix**
  - Based upon input from the “listening campaign,” work on tasks from high impact to smaller impact
    - Calendar timeline is tentative and subject to change.
- Rules of Engagement

# Quest to Make Employees' Retirement System of the S&WB "Best in Class"

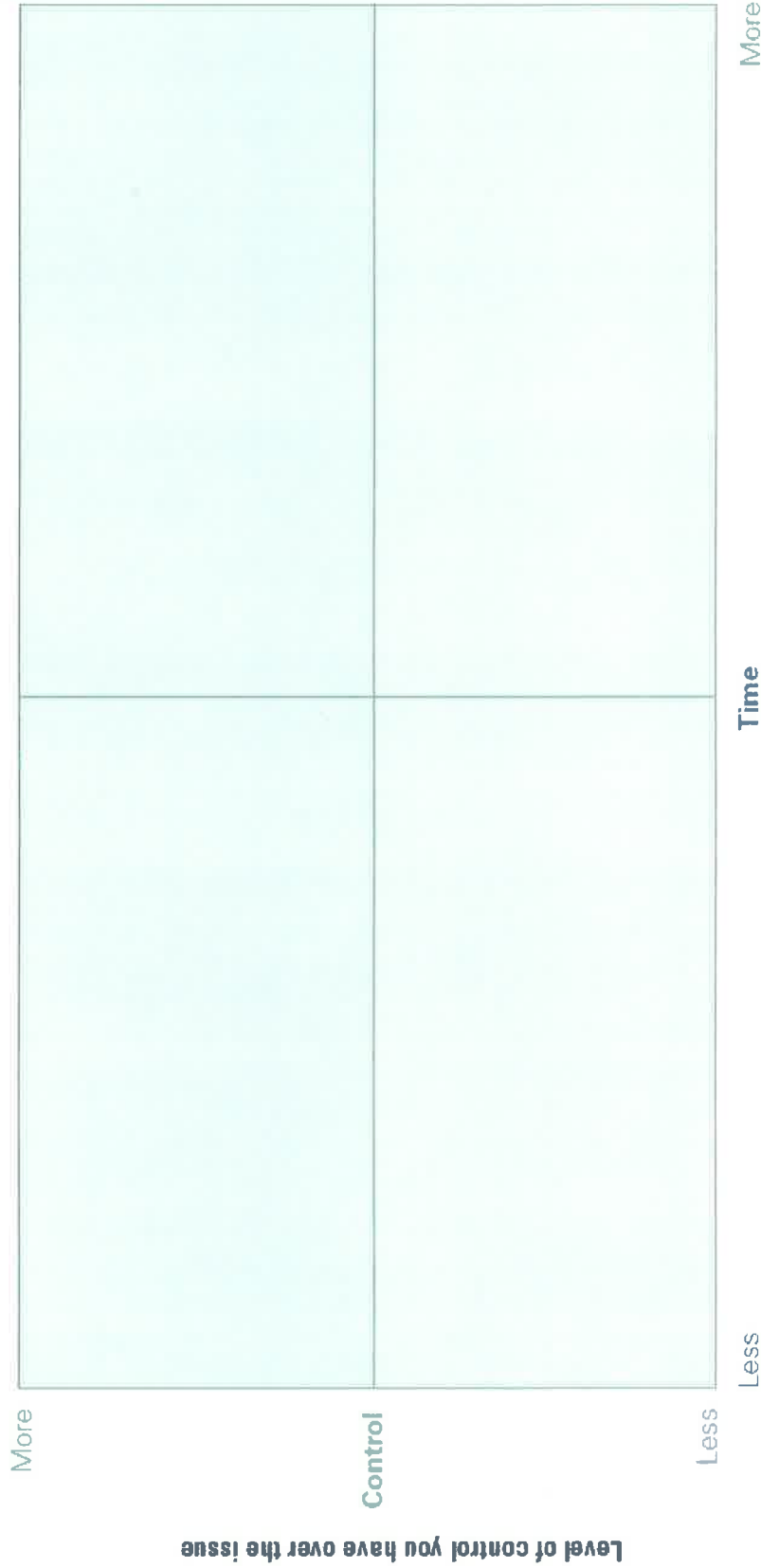
One of the 12 factors of "exemplars of best practice" is:

- "A highly competent investment function tasked with clearly specified responsibilities and with clear accountability to the institution."<sup>\*</sup>
  - An explicit "map" of institutional authority, distinguishing the responsibilities of boards, staff, and service providers.
  - Efficiency is doing things the right way; ***effectiveness is doing the right things.***<sup>\*\*</sup>

<sup>\*</sup>Gordon L. Clark and Roger Urwin, "Best-Practice Investment Management Lessons for Asset Owners from the Oxford-Watson Wyatt Project on Governance." October 2007.

<sup>\*\*</sup>Peter Drucker, The Effective Executive, (New York: HarperCollins Publishers, 2017).

# Spend More Time on the Areas That You Can Control



Amount of time committee spends on the issue

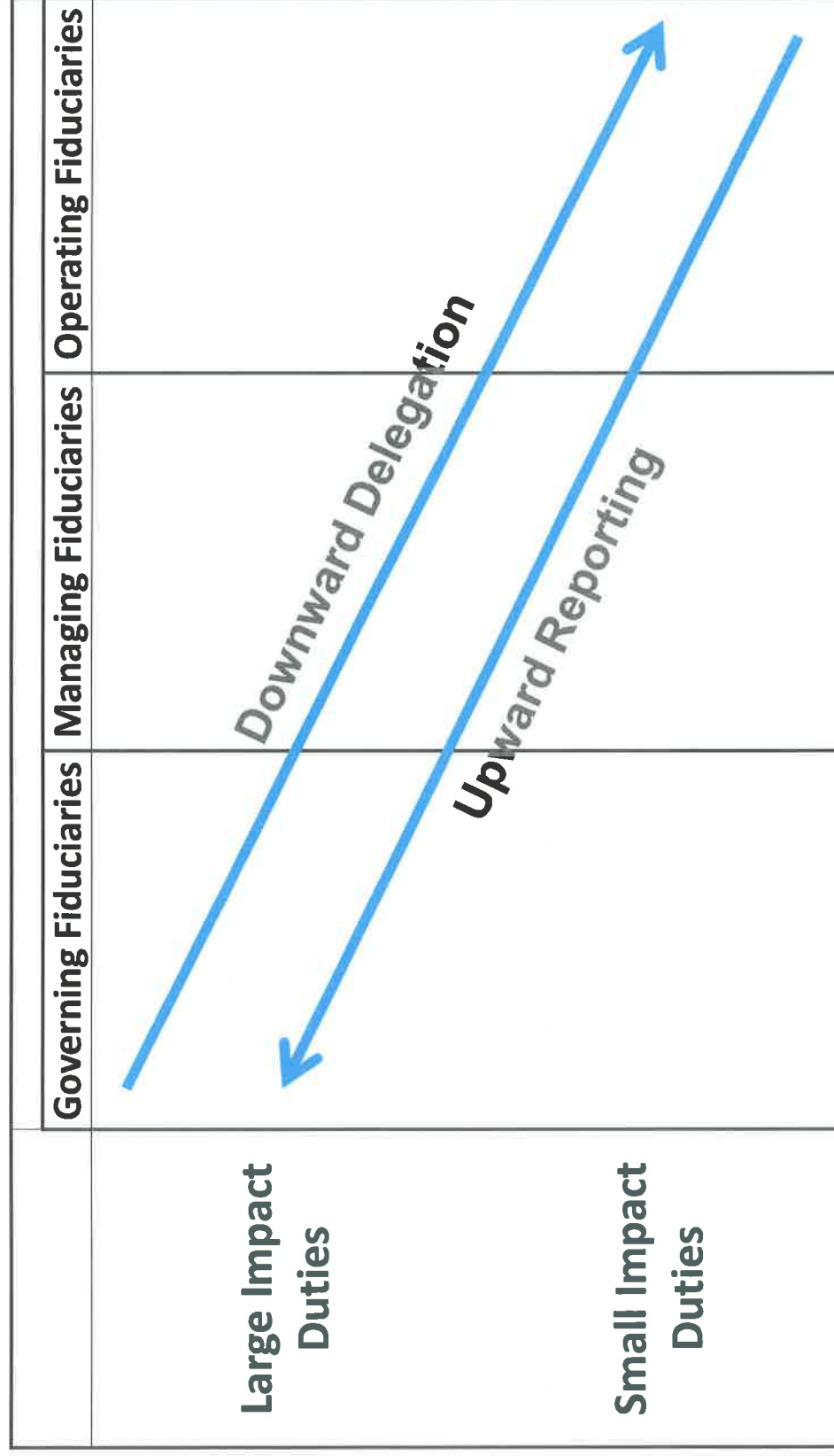
Source: Vanguard, "Where Investment Committees Spend Their Time," 2009.

# Where Do Investment Committees Spend (Rightly or Wrongly) Their Time?

	Percentage of Time Allocated at Meetings			
	Past Performance Review	Manager Selection	Strategy Decisions	Non- investment Issues
Defined Benefit	38%	8%	23%	15%
Defined Contribution	51%	5%	16%	10%
Nonprofit	35%	15%	31%	14%
All	40%	10%	25%	13%

Source: Vanguard Investment Counseling & Research, "Investment Committee Decision-Maker Study," 2009.

# Basic Governance Structure



Adapted from: Keith P. Ambachtsheer and D. Don Ezra, *Pension Fund Excellence*, (New York: John Wiley & Sons, 1998) and John Ilkiw, *Handbook on Asset-Liability Management: A Guide for US Fiduciaries*, (Tacoma: Frank Russell Company, 1998).

# Assigning Roles and Responsibilities

- Three Types of Fiduciaries
  - Governing
  - Managing
  - Operating
- For each duty, three actions are assigned
  - Decide – assigned to one unique party
  - Oversee- assigned to one unique party
  - Input

# Detailed Governance Structure

Governance Structure	Delegation →					← Reporting			
	Revised Statute	Board of Trustees	Other Committee	Pension Committee	Executive Director	CIO	CFO	Consultant	Operating Fiduciaries Managers Custodian Others
Louisiana Revised Statutes									
Mission									
Benefit Policy									
Contribution Policy									
Rules and Regulations of ERS									
IPS - Governance Structure									
IPS - Investment Philosophy									
IPS - Risk Appetite & Capacity									
IPS - Objectives									
IPS - Asset Allocation									
IPS - Benchmarks									
Organizational Values									
Appoint & Supervise CIO									
Budget									
Annual Plan & Objectives									
Fund Rebalance									
Within Asset Class Strategies									
Hire/Fire Managers									
Hire/Fire Consultant(s)									
Hire/Fire Custodian									
Trade Execution									
Performance Reporting									
Risk Measurement									
Compliance									
Security Selection									
Proxy Voting									
Custody									
Master Record Keeping									



# PRMIA Principles of Good Governance\*

- **Key Competencies**
- **Resources and Processes**
- Ongoing Education and Development
- Compensation Architecture
- **Independence of Key Parties**
- Risk Appetite
- **External Validation**
- **Clear Accountability**
- Disclosure and Transparency
- Trust, honesty and fairness of key people

\*Professional Risk Managers' International Association, 2009

# Action Plan

- Subject to CIO's "listening campaign" with all Pension Committee members.
- Following the Governance Structure matrix from high impact to smaller impact.
- Calendar timeline is tentative.

# Action Plan

*\*Dates are Tentative\**

- Pension Plan Rules Review
- Form Action Plan based upon Committee input and initial review (June)
- Governance Structure (June, July, August)
- Need for Asset-Liability Study (June, July)
- Investment Philosophy (July, November)
- Quarterly Performance Reviews (August, November, February, May)
- Revisit Objectives (September)
- Statement of Risk Capacity and Appetite (August, September, October)
- Asset-Liability search for provider and study (July-December)
- Asset Allocation review and update (January-March 2018)
- Asset Class Structures, Active/Passive (April-June 2018)
- Revise Investment Policy Statement
- Relevant External Investment Managers

# CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

## PREAMBLE

The CFA Institute Code of Ethics and Standards of Professional Conduct are fundamental to the values of CFA Institute and essential to achieving its mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession. Since their creation in the 1960s, the Code and Standards have promoted the integrity of CFA Institute members and served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. All CFA Institute members (including holders of the Chartered Financial Analyst® [CFA®] designation) and CFA candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Violations may result in disciplinary sanctions by CFA Institute. Sanctions can include revocation of membership, revocation of candidacy in the CFA Program, and revocation of the right to use the CFA designation.

## THE CODE OF ETHICS

Members of CFA Institute (including CFA charterholders) and candidates for the CFA designation ("Members and Candidates") must:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

## STANDARDS OF PROFESSIONAL CONDUCT

### I. PROFESSIONALISM

- A. Knowledge of the Law.** Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.
- B. Independence and Objectivity.** Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

- C. Misrepresentation.** Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.
- D. Misconduct.** Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

### II. INTEGRITY OF CAPITAL MARKETS

- A. Material Nonpublic Information.** Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.
- B. Market Manipulation.** Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

### III. DUTIES TO CLIENTS

**A. Loyalty, Prudence, and Care.** Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests.

**B. Fair Dealing.** Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

**C. Suitability.**

1. When Members and Candidates are in an advisory relationship with a client, they must:

- a. Make a reasonable inquiry into a client's or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.
- b. Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
- c. Judge the suitability of investments in the context of the client's total portfolio.

2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.

**D. Performance Presentation.** When communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

**E. Preservation of Confidentiality.** Members and Candidates must keep information about current, former, and prospective clients confidential unless:

1. The information concerns illegal activities on the part of the client or prospective client,
2. Disclosure is required by law, or
3. The client or prospective client permits disclosure of the information.

### IV. DUTIES TO EMPLOYERS

**A. Loyalty.** In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

**B. Additional Compensation Arrangements.** Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with or might reasonably be expected to create a conflict of interest with their employer's interest unless they obtain written consent from all parties involved.

**C. Responsibilities of Supervisors.** Members and Candidates must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations, and the Code and Standards.

### V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

**A. Diligence and Reasonable Basis.** Members and Candidates must:

1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

**B. Communication with Clients and Prospective Clients.** Members and Candidates must:

1. Disclose to clients and prospective clients the basic format and general principles of the investment processes they use to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
2. Disclose to clients and prospective clients significant limitations and risks associated with the investment process.
3. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
4. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

**C. Record Retention.** Members and Candidates must develop and maintain appropriate records to support their investment analyses, recommendations, actions, and other investment-related communications with clients and prospective clients.

### VI. CONFLICTS OF INTEREST

**A. Disclosure of Conflicts.** Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

**B. Priority of Transactions.** Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

**C. Referral Fees.** Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from or paid to others for the recommendation of products or services.

### VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

**A. Conduct as Participants in CFA Institute Programs.** Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA Institute programs.

**B. Reference to CFA Institute, the CFA Designation, and the CFA Program.** When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA program.