



Ennis Knupp Fiduciary Review Update

Investment Advisory Committee Meeting
September 21, 2011

Overview of Recommendations

- Review concluded in 2010 with 116 recommended actions
- Collective effort by Investments Division and DST Staff
- Recommendations categorized into 7 major groups
 - Transparency, Accountability, Ethics
 - Organizational Structure
 - Investment Policy and Asset Allocation
 - Investment Performance Reporting
 - Due Diligence
 - General Investment Activities
- 88% have of the recommendations have been addressed with a deliverable ; 12% addressed in ongoing activities

Highlighted Actions and Accomplishments

- Transparency, Accountability, Ethics
 - Created Placement Agent Policy; provided to all managers; maintain compliance status
 - DST Internal Auditor function developed and manager hired
 - Established an Investment Risk Manager function (Director of Risk Management)
- Organizational Structure
 - Hired CIO, Director of Alternatives, and Director of Global Equity
 - Reviewed and updated job descriptions of all three roles in division (Director, Portfolio Manager, and Analyst)
- Investment Policy and Asset Allocation
 - Continue to perform annual reviews of asset allocation
 - Clarified rebalancing strategy to bring fund to policy targets or within range
 - Using risk budgeting to determine and monitor risk
- Investment Management Structure
 - Using appropriate pacing models for private asset classes
 - Addressed the role that Timber plays in portfolio and re-classified into real estate allocation

Highlighted Actions and Accomplishments

- Investment Performance Reporting
 - Reviewed Private Equity results by strategy, vintage year, and geography compared to Venture Economics data
 - Updated benchmarks for all asset classes
 - Report all performance net of fees
- Due Diligence
 - Ensured that manager selection process and results of due diligence checklist are executed and documented
 - Improved the manager selection and recommendation memorandum to include more detail on managers to be included in portfolio
- General Investment Activities
 - Separate account created for securities lending at State Street
 - HUB language included in investment management agreement

Ongoing Activities

- Transparency, Accountability, Ethics
 - Work with Treasurer and DST communications staff to meet stakeholder's needs (e.g. website)
- Organizational Structure
 - Identify and source talent to meet portfolio staffing needs (Portfolio Manager, Global Equity)
- Investment Policy and Asset Allocation
 - Monitor asset allocation assumptions and targets as markets and/or legislative authority changes
- Investment Management Structure
 - Continue to select third party service providers that add value at a reasonable price (e.g. transition managers and outside legal counsel)
- Investment Performance Reporting
 - Include additional details and reports as requested by Treasurer and IAC
- Due Diligence
 - Add active risk parameters as a quantifiable measure of permissible risk when attempting to obtain excess return targets
- General Investment Activities
 - Review and update standard operating procedures/internal controls