WAYZATA PUBLIC SCHOOLS

Independent School District 284
Wayzata, Minnesota

BOARD OF EDUCATION

Work Session - November 22, 2010 - 4:00 PM
District Administration Building, 210 County Rd. 101 N., Plymouth, MN

AGENDA

WAYZATA PUBLIC SCHOOLS
Independent School District 284
Wayzata, Minnesota

VISION

A model of excellence among learning communities

MISSION

The mission of the Wayzata School District is to prepare all students for the future by providing a challenging education which builds academic competence, develops responsible citizenship, encourages creativity, promotes lifelong learning, advances critical thinking skills, instills a commitment to personal wellness, and fosters respect for self and others.

District Directions for 2008-2010

To ensure high achievement on the part of each student and to realize our vision, the district's directions for 2008-2010 are:

- *Provide a more personalized education for each student.*
- *Eliminate the predictability of student achievement based on race.*
- *Provide opportunities for students to engage in global connections.*
- *Prepare students in skills that they will need to function effectively in the future including creative thinking, diplomacy, problem solving and teamwork.*
- *Enhance the sense of ownership and engagement in the district by all segments of the community.*

WAYZATA PUBLIC SCHOOLS
Independent School District 284
Wayzata, Minnesota

BOARD OF EDUCATION

Work Session – November 22, 2010

AGENDA SECTION: **1. CALL TO ORDER/ROLL CALL**

ITEM:

COMMENTS BY: **Board Chair Peterson**

Susan H. Droegemueller, Board Clerk, will call the roll:

	PRESENT	ABSENT
Ms. Linda A. Cohen	________	________
Ms. Susan H. Droegemueller	________	________
Ms. Susan Gaither	________	________
Ms. Patricia L. Gleason	________	________
Mr. Jay A. Hesby	________	________
Mr. John A. Moroz	________	________
Ms. Carter G. Peterson	________	________
Dr. Chace B. Anderson, Ex Officio	________	________

Legislative Action Committee – 2011 Platform
(DRAFT – November 17, 2010)

While the Governor and legislators must solve the budget deficit, there are also opportunities to discuss and develop a long-term strategic vision for E-12 education in Minnesota. We believe strongly that the work of the Legislature must include short-term problem solving and long-term planning. Now is the time to think beyond the immediate problems and chart a vision that will have a long-lasting impact on our schools. To that end, the Wayzata Public Schools Legislative Action Committee (LAC) has organized its 2011 Legislative Platform in two sections: short-term priorities and priorities for the state's long-term E-12 education vision.

Short-term Priorities

For the 2011 Legislative Session, we urge the Legislature and Governor to:

- Support legislation to allow Wayzata Public Schools to qualify early for the state's alternative facilities program

- Support legislation to preserve E-12 education funding and make the investment in students a top priority in the budgeting process

- Establish a plan to incrementally pay back the aid payment shift rather than returning to the 90/10 payment formula in two years

- Maintain support and funding for the state's alternative compensation (QComp) program

- Reduce the need for school districts to pay for the excess cost of special education programs by having the state pay its full share of special education costs

- Oppose any legislation that would reduce state funding for districts with undesignated fund balances above a specified amount

- Oppose any mandatory statewide school employee health insurance pool

Priorities for the State's Long-term E-12 Education Vision

All successful public and private organizations can point to a clearly articulated, long-term vision as a critical aspect of their success. The same long-term vision is needed for E-12 education in Minnesota. The state needs the Governor and Legislature to lead a broad cross-section of stakeholders in a process to develop the desired future for E-12 education and step beyond the political disagreement that stifles innovation, reform and transformational change. The platform items noted below are meant to stimulate thinking on what change is needed and why a clearly articulated vision will help our state's education system prepare for the future. To this end, we urge the Legislature and Governor to:

- ★ **Reform E-12 education funding system** to provide adequate and stable funding, fully fund the basic instructional needs of all students, and reduce the dependence on operating levies to fund district operations

- ★ **Allow local school boards to generate and spend** financial resources to best meet local needs

- ★ **Continue to support the teacher alternative compensation** (QComp) program and explore other innovative strategies to build the skills of all teachers

- ★ **Recognize the reality of higher labor costs** in the metro area and implement the location equity index or similar provision to help districts pay for these increased costs

- ★ **Address the maintenance of effort provision** on special education and other areas to allow more local control

- ★ **Encourage and reward innovative reform initiatives** that focus on better meeting the needs of all students and closing the achievement gap.

- ★ **Invest more in our state's youngest learners** by increasing funding for programs and services for children ages birth-K and their families; and allow flexibility for districts to use other funding to direct toward early childhood programs

The 2011 Legislative Platform was approved by the Wayzata Public Schools Board and its Legislative Action Committee (LAC).

Recommendation	**Recommend to include in the District's levy for lease authorization, funding to enter into an annually-renewable lease, securing space to expand the District's Community Education learning programs, targeting persons and families in our community currently not being served by Community Education due to day-time space constraints. The levy amount would not exceed $30 per square foot gross occupancy cost for 2010-2011 and 2011-2012 school years. This would include an allocation for cost for shared space or common area charges. Actual costs will be negotiated as part of the final lease agreement.**
Executive Summary of Concept	• **Lease approximately 4,000 square feet of learning space from Interfaith Outreach and Community Partners (IOCP).** • **Space to be designed for flexible use and not designed to be dedicated to a single program** • **Space to be created to facilitate infant care (approximately 500 square feet), early childhood programs (approximately 1,000 square feet) and a multi-age large group learning space (approximately 2,500 square feet).** • **Strategic partnership opportunities with other agencies that have complementary missions, including IOCP, University of Minnesota and Hennepin County.** • **Vision is to provide quality learning space that will enable a variety of District programs to better meet the learning needs of people of all ages, including early childhood, K-12 students, young adults, active older adults and seniors, as well as adults with disabilities and families.** **The old Erickson Grocery Store at the corner of Highways 6 and 101, which will become the new home of ICOP. It is approximately 40,000 total square feet. The proposal is to lease 4,000 square feet of that facility. The property is immediately across the street from Oakwood Elementary on a Metro Transit bus line.**
Benefit of Approving this Initiative	• **Expands capacity for learning** • **Expands the existing collaboration between the District and IOCP in serving children and families**

	• **Potential for serving those currently un-served or underserved** • **Multi-agency approach allows for greater integration of services and programs, and the co-location in a one-stop center takes the barriers of time and distance out of the equation** • **Creates leading edge partnership with a leading edge community non-profit and better access and coordination with Hennepin County programs and services** • **Provides for much needed additional learning space for the District**
Learning Demand vs Capacity	• **Currently, there is no Community Education space designed for flexible use and for multi-age, multi-use, multi-program utilization.** • **The District also has limited large group learning space Central Middle School (CMS) (Rooms A-413 and A-111 are the primary spaces).** • **New initiatives such as the Successful Aging Project and Workforce Transitions are struggling to provide programs due to lack of daytime learning space.** • **Other surrounding districts have repurposed retired K-12 schools to be community learning centers. Wayzata Schools does not have that option nor will it in the foreseeable future. Space for daytime programming is limited or non-existent due to space constraints.** • **This would not be replacement space, but a new space in the District's portfolio.**
Sustainability of Programs	• **The lease levy would offset the lease and general operational costs of the space.** • **Cost for retrofitting the space would be built into the lease agreement.** • **Programs utilizing the space would be sustained by a combination of tuition, fees and state or local tax support as is currently the case with these programs in other locations.** • **Programs would not be expected to off-set the operational costs associated with the lease. These costs would be covered long-term by the levy-for lease authority.**

Purpose and Vision of Community Education	**The purpose and vision for Wayzata Community Education is to be the arm of the School District that provides leadership in creating a lifelong learning community, where learners of every age are engaged in the learning process, and through citizen involvement, community members are involved in identifying community needs and engaged as a resource in addressing them. The vision is to be a Model of Excellence Among Lifelong Learning Communities.**
How this project fits into Purpose and Vision	**This project would enable people who currently are un-served or underserved by the District the opportunity to be more fully engaged in the learning community. Programs that currently are exploring creating use of this proposed new space include (not inclusive of all possibilities being continually explored):** **Early Childhood** • **Parent Mentorship Program** • **Expanded Family Literacy for English language Learners (ELL) preschoolers** • **Parent Support and Education** • **Teen parent and child** • **Single parent and child** • **Caring for Kids Initiative (CfKI) parent/child large group activities** • **One-stop shop for parents with young children – Clinic; Dentist; Screening; Steps to Kindergarten; County Services; IOCP** • **Family (parent/child) events** • **Training for CfKI mentors and volunteers** **K-12 Student Support** • **WISHES Classes and homework help** **Adults** • **Workforce Transitions for parents/adults in job transition and workforce retraining** • **Conversation Circles for ELL students waiting for IOCP services** • **Daytime and evening ABE and/or ESL classes with childcare** • **Daytime classes for Adults with Disabilities**

	Active Older Adults and Seniors • **Daytime classes especially for seniors.** **Family and Parent Engagement and Support** • **Swing office for counselors/diversity coordinators/teachers to meet with parents of students** • **Daytime and evening parent education classes with childcare (Geoffrey Canada's Baby College)** • **CfKI Mentor Program** • **Professional Development for Quality Provider Networks** **Community Gathering** • **Community Dinners** **Other** • **Potential Partnership with Culinary Express providing nutrition and cooking classes** • **District staff development**
Common Spaces and Services	**In addition to the dedicated leased space, the proposed shared spaces and common areas include:** • **Receptionist and receptionist area** • **Access to Community Room (1800 square feet)** • **Drop-in childcare** • **Common Computer Lab** • **Huddle Spaces for one-to-one conferences** • **Access to lounge and kitchen facility**

SunsetHillElementary School
School Improvement Plan
November 22, 2010

School Improvement Plan Subcommittees

Building Leadership/Equity

Laurie Lindquist, Chair
Katie Howard
Jill Gottlieb
Erik van Koeverden
Lesya Parekh
Andrew Worth
Kalie Gross
Sam Bass
Amy Schmidt
Sue Petersen

Collaborative Inquiry Data Team

Laurie Lindquist
Kalie Gross
Liz Denn
David Wiegert
Erik van Koeverden
Chip Brofford
Andrew Worth

Section 1: ExecutiveSummary-SunsetHillElementary School

Teaching students the elements of reading is key at the elementary level, as it is the foundation for future learning. Research reports that students must be at grade level in reading by the end of third grade or be at risk of continually being behind their peers. Sunset Hill Elementary embraces that challenge each and every day. Teachers continue to look for best practices to reach each learner. The passion is evident as teachers embed new strategies learned through a number of professional development opportunities during the last few years that have accelerated student progress. School wide professional development has changed the culture of our building to one of teamwork, common language and better understanding of our students.

We believe we have found four major initiatives to help us on our journey—Professional Learning Communities, Positive Behavior Interventions and Supports, our work with the National Urban Alliance, and incorporating differentiated reading instruction into our language arts block. While these are all very different in their focus, they have given us many lenses through which we view our work, and it all comes together when we talk about student learning.

We are pleased to share our school improvement focus, and this document summarizes our goals and plans for the 2010-2011 school year. Also included are data about our school during the last five years. It is important to see where we have been when we look forward to where we are going.

Section 2: AcademicSchool Improvement Initiatives

Focus Area: Q-Comp SIP Goals 2010-2011 Reading:
The AYP Index Rate in the area of Reading for all students in grades 3-5 at Sunset Hill will increase from 91.46 to 92.46.

Highlights of action plan for Reading Goal:Students will focus on improving reading strategies using text at their level for optimal growth.

Focus Area: Equity SIP Goals 2010-2011 Reading:
In the spring of 2011, 72% of our African American students in grades 3-5 will be proficient in the area of reading as measured by the MCA II reading test.

Highlights of action plan for Reading Goal: African-American students at Sunset Hill had a 68% proficiency level on the 2010 Reading MCAII. Students will continue to improve their proficiency in the area of reading by improving reading strategies using text at their level.

Section 3: Other School Improvement Initiatives

Focus Area: SIP Goals 2010-2011 Other Area:
The percentage of all students in grades 3-5 at Sunset Hill Elementary who achieve or exceed their individual RIT score growth target on the reading NWEA MAP will increase from 75.1% in spring 2010 to 85% in spring 2011, with growth being measured from Fall 2009 to Spring 2010.

Highlights of action plan for Other Area: The overall MAP growth of our students has increased by 13.1% over the last 3 years. We are confident that the teaching strategies we are incorporating into the classroom, combined with the work in our PLCs will allow students to show more growth than in past years. Teachers will focus on students learning and mastering state standards through the use of the curriculum and focused teaching and learning strategies. The unit benchmarks and common formative assessments developed by teams will monitor student learning and inform instruction.

Section 4: Professional Development Initiatives

Highlights of action plan for Professional Development:
Research has shown that students make the most growth in reading when they read documents at their reading level. In order for this to happen on a regular basis, teachers need to differentiate their instruction and materials according to student needs. In the Summer of 2009, teachers at Sunset Hill read

the book The Daily 5 by Boushey and Moser. This book gave teachers strategies to modify their classroom techniques in order to meet with small groups of students for specific strategy instruction. In the summer of 2010, teachers read the sequel The Café, to further their knowledge in this area. The Café strategy gives teachers a model for conferencing with students and keeping track of formative data. Staff engaged in an AWE class in August and September, taught by Jane Reynolds, Katie Howard and Krista Ice. The goal of the class was to learn more about the strategy and plan as grade levels as to how to incorporate this model into the district curriculum. Teachers use a combination of curriculum materials and student selected text to work with students both as a whole group and in flexible small groups according to student needs in the area of reading.

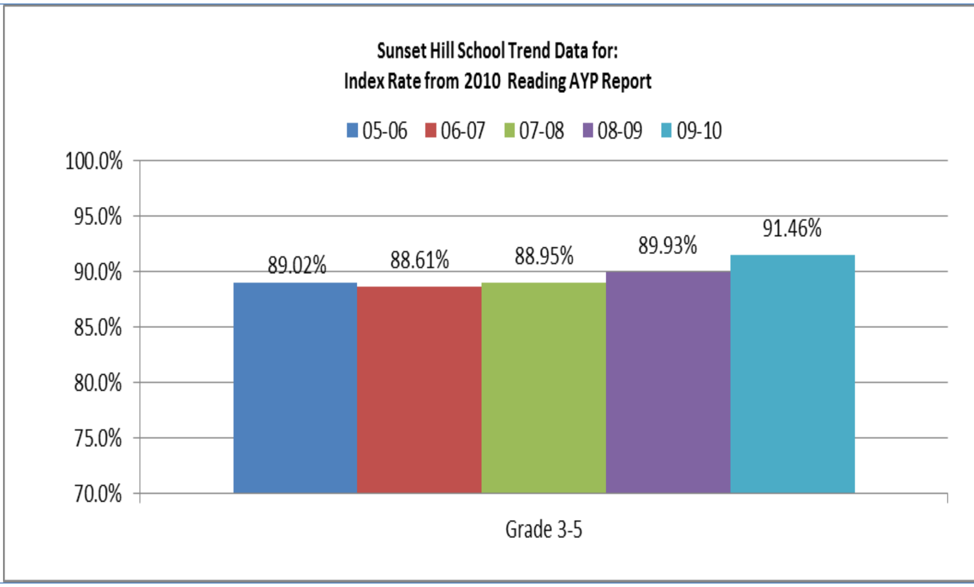
Many teachers were at professional development opportunities during the summer to learn techniques for examining data in Professional Learning Communities (PLC). Teachers have begun to deepen their understanding and use of data in order to guide instruction. Data is used as a formative tool more often, with teachers engaging the Using Data Process of collaborative inquiry, and having more focused curricular discussions about student needs. "Teachers in gap-closing schools use assessments more often, use data more frequently and work coolabortively to analyze and act upon the data" (DuFour et. al, 2006 p. 150). The goal is to answer the driving questions of PLCs:

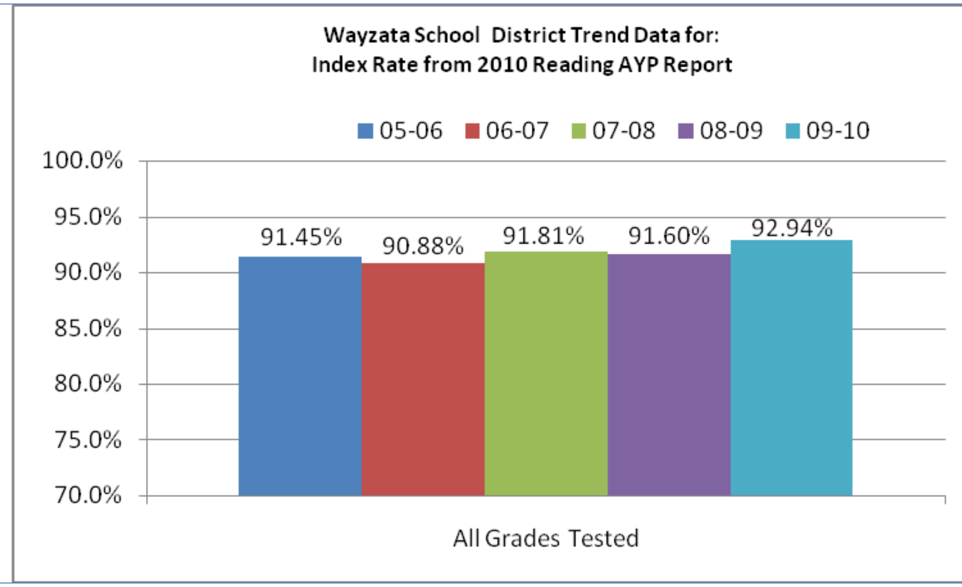
- **What is it we want our students to learn?**
- **How will we know when they have learned it?**
- **What will we do if they haven't learned it?**
- **What will we do if they already know it?**

Sunset Hill will continue the vision of NUA, working to engage all students in High Intellectual Performance (HIP). Teachers have learned many strategies from our NUA mentor, and we will continue to learn new ways to go deeper into the strategies to get students to think about their thinking (metacognition). Strategies will allow students to use and gain background knowledge that is necessary for new learning to embed into the brain.

Positive Behavior Interventions and Supports (PBIS) is a program that teaches students expected behaviors. Staff continue to study and work as a team to develop common language around behavior and best ways to recognize students when they practice what they have learned. Discipline reports are tracked and reported to staff on a regular basis for reflection and problem solving. The recent addition of a behavior interventionist who is able to work with teachers and students one-on-one will improve and enhance interventions, with the ultimate goal being student behavioral and academic success.

Section 5: Q-Comp Action Plan Data





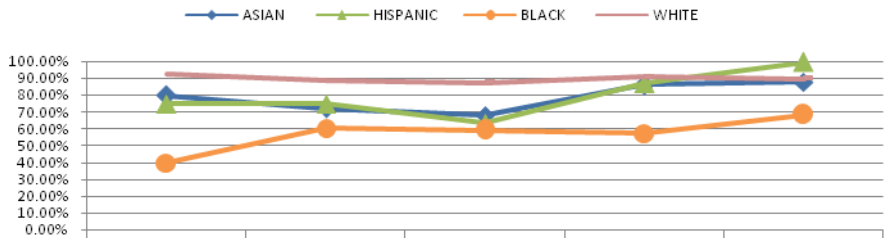
The overall AYP Index Rate in the area of Reading for Sunset Hill has increased by 2.44% in the last five years.
The overall AYP Index Rate in the area of Reading for the District has increased by 1.49% in the last five years.

While these increases may seem small, one cannot tell the whole story from one set of trend data. As we look deeper into the last 6 years at Sunset Hill, we see dramatic changes in our demographics. Our enrollment has increased by 100 students. Our demographics for LEP students, students with IEPs, students who qualify for free/reduced lunch have increased, and our population of students has become more ethnically diverse. While some schools experience a drop in student success when faced with changes such as these, we see our 2.44% as an accomplishment, and celebrate the fact that we are raising our proficiency levels at a rate higher than district average.

Staff demographics have changed as well. When looking at teacher data, we find that 47% of them were hired within the last 6 years, and almost half of those teachers had less than 2 years experience. Teachers also work on their own learning, as 74% of the teaching staff now hold a Master's degree. We can be proud of the work we continue to do to help all of our students be successful.

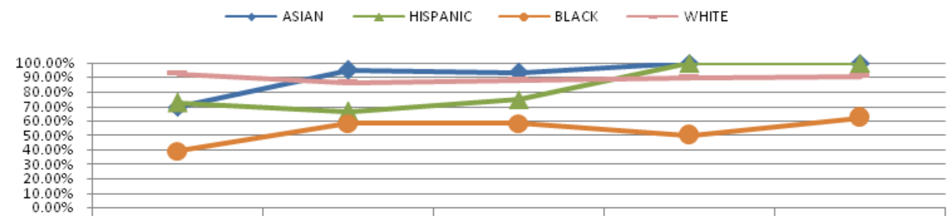
Section 6: Equity Action Plan Data

Sunset Hill Elementary School MCA II Reading Trenda Data by Ethnicity



	2006 % Proficient	2007 % Proficient	2008 % Proficient	2009 % Proficient	2010 % Proficient
ASIAN	(20) 80.00%	(29) 72.41%	(22) 68.18%	(22) 86.36%	(34) 88.23%
HISPANIC	(8) 75.00%	(8) 75.00%	(11) 63.63%	(8) 87.50%	(9) 100.00%
BLACK	(20) 40.00%	(28) 60.71%	(32) 59.37%	(40) 57.49%	(35) 68.57%
WHITE	(189) 92.59%	(204) 88.72%	(198) 87.87%	(210) 90.95%	(200) 90.00%

Sunset Hill Elementary School MCA II Math Trenda Data by Ethnicity



	2006 % Proficient	2007 % Proficient	2008 % Proficient	2009 % Proficient	2010 % Proficient
ASIAN	(23) 69.56%	(21) 95.23%	(15) 93.33%	(15) 100.00%	(25)100.00%
HISPANIC	(11) 72.72%	(6) 66.66%	(8) 75.00%	(6) 100.00%	(9) 100.00%
BLACK	(28) 39.28%	(24) 58.33%	(29) 58.62%	(38) 50.00%	(37) 62.16%
WHITE	(191) 92.67%	(203)86.69%	(196) 88.26%	(208) 89.90%	(199)90.95%

- From 2006-2010 in the area of Reading, Black students have increased their proficiency level 28.57%, Asian students 8.23%, and Hispanic students 25%, while white students have decreased their proficiency 2.49%
- From 2006-2010, the achievement gap between black and white students in the area of reading decreased from 52.5% to 21.43%.
- From 2006-2010 in the area of Math, Black students have increased their proficiency level 22.88%, Asian students 30.44%, and Hispanic students 27.28%, while white students have decreased their proficiency 1.72%
- From 2006-2010, the achievement gap between black and white students in the area of math decreased from 53.39% to 28.79%

When the question "What are the causes of continued high proficiency levels while closing the achievement gap?" was posed, a number of hypotheses were offered. During these past four years, a number of initiatives have had an effect on teaching and learning.

1. The formation of NUA cohorts V, VI and VII have given 30 staff members the opportunity to learn new and engaging teaching strategies to reach each and every learner. Students are moving from grade level to grade level using the same strategies, which allows students to focus on new content. Teachers have also learned the importance of building background knowledge, which makes it easier for students to learn concepts.
2. The incorporation of Positive Behavior Interventions and Supports (PBIS) has given staff and students a common language about our school's behavioral expectations. Teaching students the specific skills needed for behavioral success ultimately gives teachers more time for teaching, and students more time for learning. Teachers are giving specific, positive praise to students, who then understand how they are behaving can affect the climate of the entire school. A peaceful school is a higher achieving school (Horner, Sugei, et. al., in press).
3. Teachers are giving more focus to individual student mastery of curriculum. When they are able to instruct on a more individual level, students are mastering the standards at a higher rate. Students spending more time on text that is at their instructional level are able to learn more than when they work with text that is too hard or too easy.
4. Teachers at Sunset Hill have made it a priority to work as a team in order to meet the needs of our students. Grade level teams are developing common formative

assessments to help guide their instruction. They are using assessment data to track student success.

Research shared by Rick DuFour at the August 2010 PLC Summit in Minneapolis stated that the single biggest difference between lower and higher performing schools with similar demographics is that higher performing schools were incorporating the practice of teachers working as PLCs.

Section 7: Basic Demographic Information	School Year 2004-2005	School Year 2005-2006	School Year 2006-2007	School Year 2007-2008	School Year 2008-2009	School Year 2009-2010	Current School Year 2010-2011
AYP Attendance rate (%)	97.0%	96.15%	95.93%	96.61%	96.24%	95.88%	
Mobility Rate							
Student Population (#)	481	516	557	553	568	583	584
Free and Reduced Price Lunch (%)	17.0% N=83	21.0% N=111	22.0% N=125	26.0% N=142	25.0% N=140	29.0% N=170	21.4%
Limited English Proficient (LEP) (%)	3.0% N=16	5.0% N=26	5.0% N=29	5.0% N=29	7.0% N=37	6.0% N=34	3.77%
Special Education (%)	8.0% N=37	10.0% N=50	8.0% N=47	8.0% N=46	12.0% N=67	11.0% N=66	11.64%
White, Non-Hispanic (%)	81.7% N=393	77.5% N=400	77.0% N=429	75.6% N=418	73.6% N=418	69.3% N=404	66.3% N=
Black Non-Hispanic (%)	8.5% N=41	10.9% N=56	9.9% N=55	11.4% N=63	12.9% N=73	13.4% N=78	15.1% N=
Hispanic (%)	4.4% N=21	4.3% N=22	4.0% N=22	3.6% N=20	4.0% N=23	4.5% N=26	5.2% N=
Native American or Alaskan Native (%)	0.4% N=2	0.2% N=1	0.2% N=1	0.4% N=2	0.2% N=1	0.5% N=3	0.01% N=
Asian/Pacific Islander (%)	5.0% N=24	7.2% N=37	9.0% N=50	9.0% N=50	9.3% N=53	12.4% N=72	13% N=

Sunset Hill has experienced steady increases in both total enrollment and diversity since 2003. The population of students of color has increased 80%, and our overall school population has increased 21%.

Schools experiencing a rapid increase in economic and ethnic diversity can experience new challenges in the areas of student achievement and discipline. This is not the case at Sunset Hill. Our teachers have always been passionate about meeting the needs of all students, and building meaningful relationships with them. They also recognized the challenges of a more diverse student population and were searching for answers to their questions. The addition of professional development through NUA has strengthened our practice, enhanced our repertoire of teaching strategies, and affirmed our belief that students who feel connected to their teachers and school are more successful overall.

Section 8: Parent Conference Info	Fall 2010			Spring 2011		
	Total # of Students	# of Students	% of Students	Total # of Students	# of Students	% of Students
Overall	380	354	93.1%			
Black	65	51	78.5%			
Hispanic	16	12	75%			
White	280	275	98.2%			
Asian	48	46	95.3%			
Low Income	86	69	80.2%			
IEP	27	23	85%			
LEP	20	17	85%			

These are the conference results of 68% of the classroom teachers at Sunset Hill.

Section 9: Discipline as of 06/10/10	Total # of Student Population	Total % of Student Population	Total # of Students w/Referrals (% of cell)	Referrals		Suspensions		Expulsions	
				# of Occurrences	% of Occurrences	# of Occurrences	% of Occurrences	# of Occurrences	% of Occurrences
Overall	583	100%		415		10		0	
Black	78	13.4%	33 (42%)	117	28%	4	40%		
Hispanic	26	4.5%	9 (35%)	29	7%	0			
White	404	69.3%	100 (25%)	252	61%	6	60%		
Asian	72	12.4%	5 (7%)	17	4%				
Low Income	169	29%							
IEP	64	11%	16 (25%)	75	18%	6	60%		
LEP	34	6%							

As a PBIS school, we are able to track discipline demographics using the School Wide Information System (SWIS). It is a web-based program that tracks student referrals. While discipline data has many variables (teacher tolerance, under/over reporting), we gain useful information. First, it is important to note that over 87% of our students received 0-1 referrals last year. Next, while Sunset Hill houses the district's setting III EBD program, the number of out-of-school suspensions was just 10 days total. Lastly, we are closely examining the discipline data by ethnicity. We see a higher proportion of black students with referrals than their overall percentage in the building. PBIS teaches that all behavior—positive and negative-- happens for a reason. Our task is to work with students to find the reasons behind these negative behaviors, so as to lower the occurrence. When we are meeting the needs of students, the proclivity for misbehavior is decreased.

Section 12: Glossary of Terms

NWEA (MAP): Northwest Evaluation Association – Measures of Academic Progress

RIT score: The student's overall scale score on the NWEA MAP assessment. **R**asch Un**it**, honoring George Rasch, the Danish mathematician who developed the underlying theory for this type of measurement. The RIT Scale is a curriculum scale developed by NWEA that uses the individual item difficulty values to estimate student achievement. Advantages to the RIT Scale are that it can relate the numbers on the scale directly to the difficulty of items on the tests and it is equal interval. Equal interval means that the difference between scores is the same regardless of whether a student is at the top, bottom or middle of the RIT Scale, and it has the same meaning regardless of grade level.

Targeted Growth: The individual growth targets are defined as the average amount of RIT growth observed for students in the latest NWEA norming study who started the year with the same RIT score as the individual student. The NWEA last normed their data in 2008.

MCA II: The Minnesota Comprehensive Assessments (MCAs) are the state tests that help districts measure student progress toward Minnesota's academic standards and meet the requirements of No Child Left Behind. The reading and mathematics tests are used to determine whether schools and districts have made adequate yearly progress (AYP) toward all students being proficient in 2014. Reading and mathematics tests are given in grades 3-8, 10 and 11. Science tests are given in grades 5 and 8 and once in high school, depending on when students complete their life sciences curriculum.

AYP: Annual Yearly Progress

IEP: Individual Education Plan- An IEP is developed to meet the needs of our special education students.

MTAS: The Minnesota Test of Academic Skills (MTAS), an alternate assessment based on alternate achievement standards, is for students with the most significant cognitive disabilities. The MCA-Modified, an alternate assessment, based on modified achievement standards, is for a small group of students whose disability precludes them from achieving grade-level proficiency. The first operational administration of the MCA-Modified is spring 2011.

NUA: The NationalUrban Alliance is an organization founded on a belief in the capacity of all public school children to achieve the high intellectual performances demanded by our ever changing global community. Their focus is teacher and administrator quality through professional development which incorporates current

research from cognitive neuroscience on learning, teaching, and leading. They partner with school districts to support the building of their capacity to advocate community-wide responsibility for realizing the learning potential of its children (http://www.nuatc.org/TESTONE/aboutus.html).
PBIS:Improving student academic and behavior outcomes is about ensuring all students have access to the most effective and accurately implemented instructional and behavioral practices and interventions possible. SWPBS provides an operational framework for achieving these outcomes. More importantly, SWPBS is NOT a curriculum, intervention, or practice, but IS a decision making framework that guides selection, integration, and implementation of the best evidence-based academic and behavioral practices for improving important academic and behavior outcomes for all students. (http://www.pbis.org/school/what_is_swpbs.aspx).

Sunset Hill Elementary
School Improvement Plan
2010-2011

November 22, 2010

A Model of Excellence Among
Learning Communities

Wayzata Public Schools

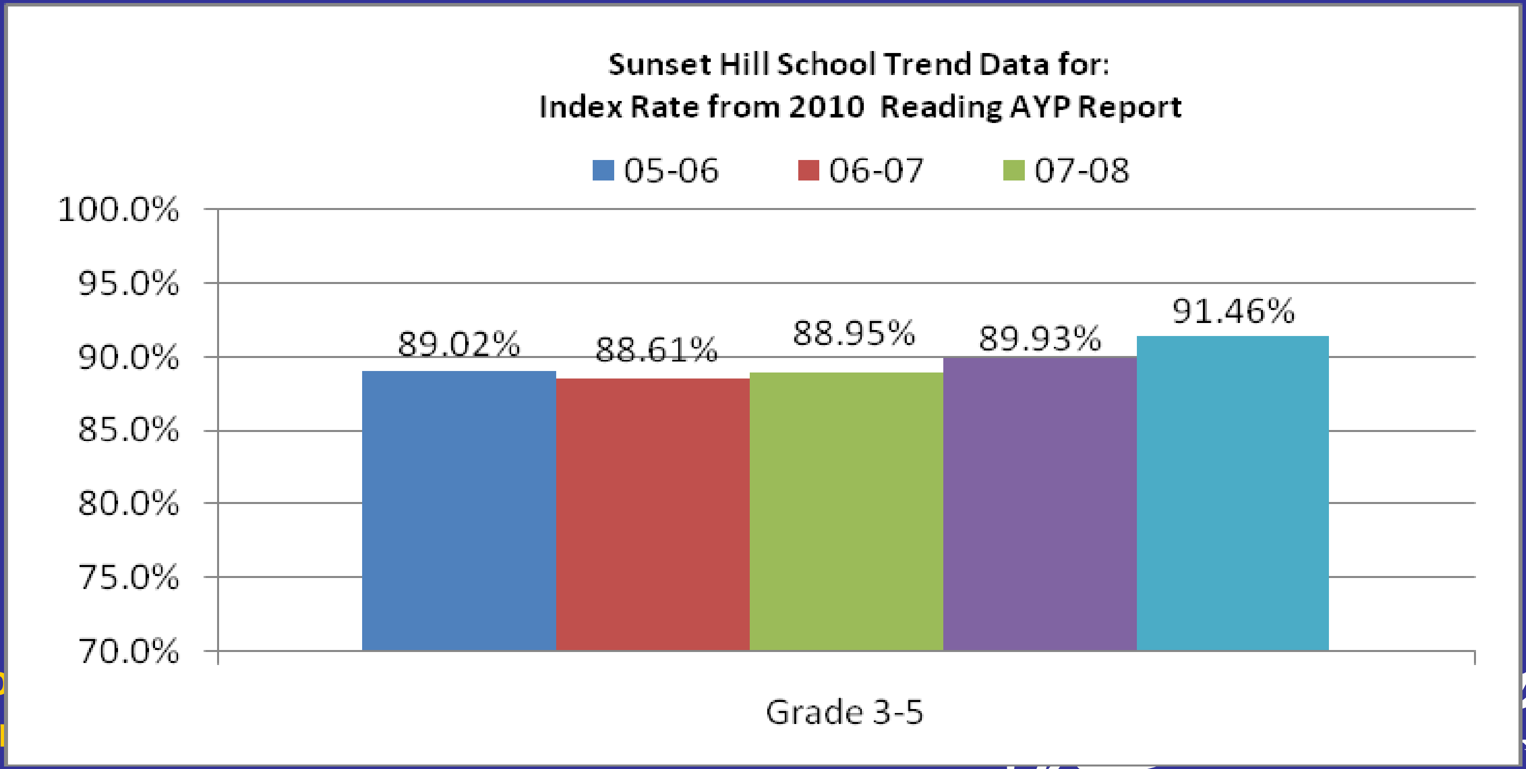
Read, Read, Read!

A Model of Excellence Among Learning Communities

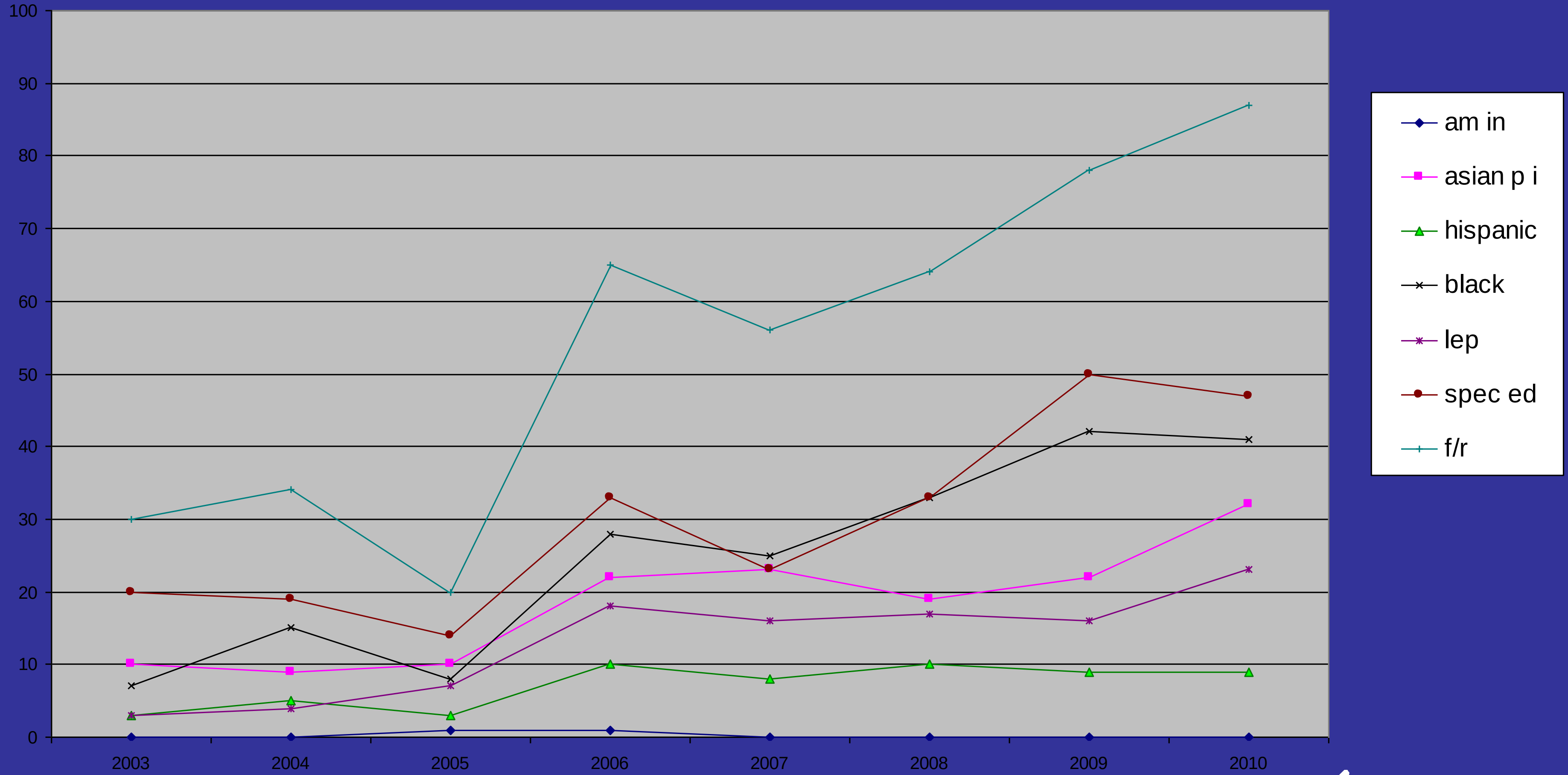
Wayzata Public Schools

Q Comp Academic Achievement Goal

- **The AYP Index Rate in the area of Reading for all students in grades 3-5 at Sunset Hill will increase from 91.46 to 92.46.**

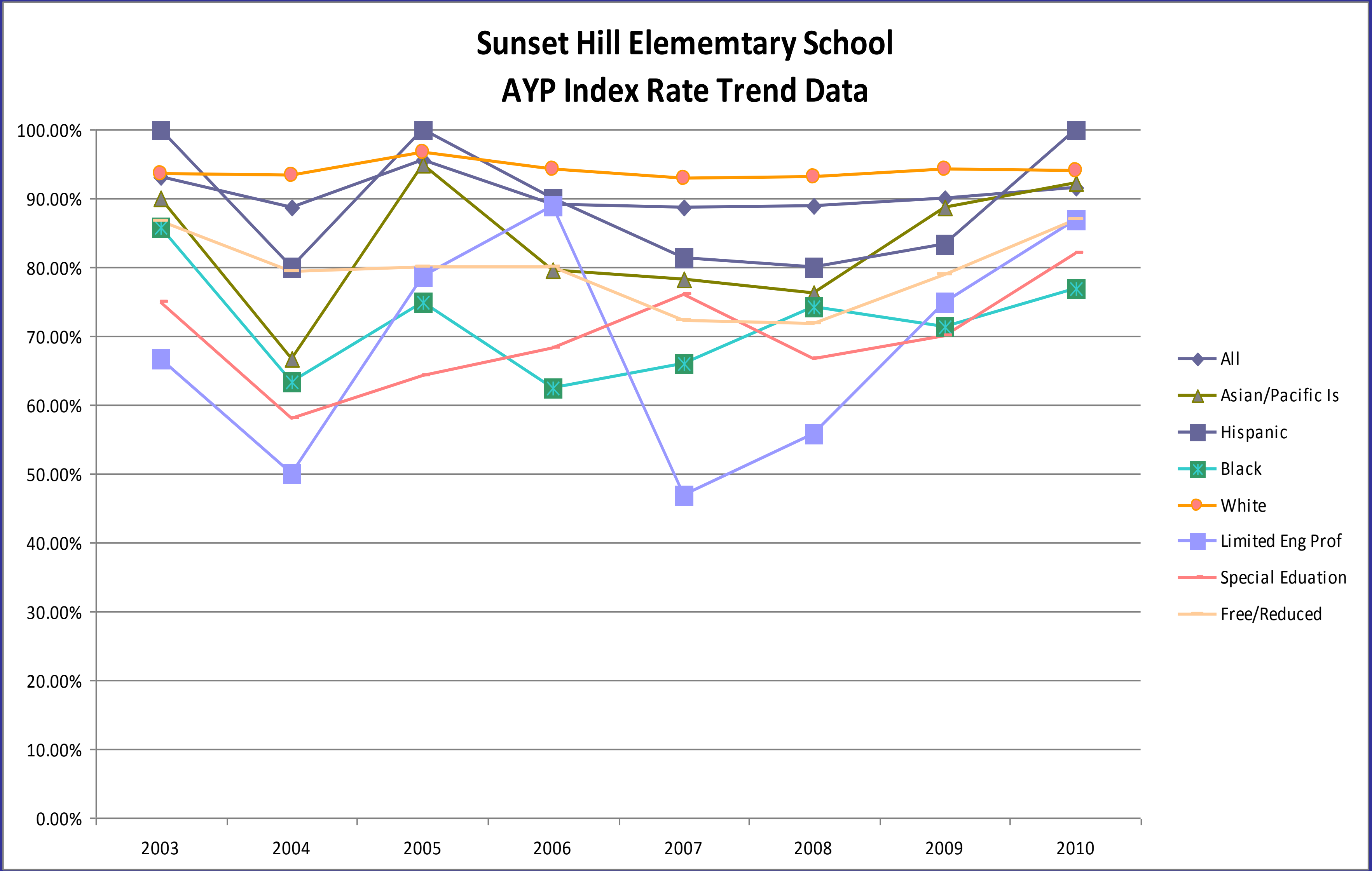


Our Changing Demographics



A Model of Excellence Among Learning Communities

Wayzata Public Schools



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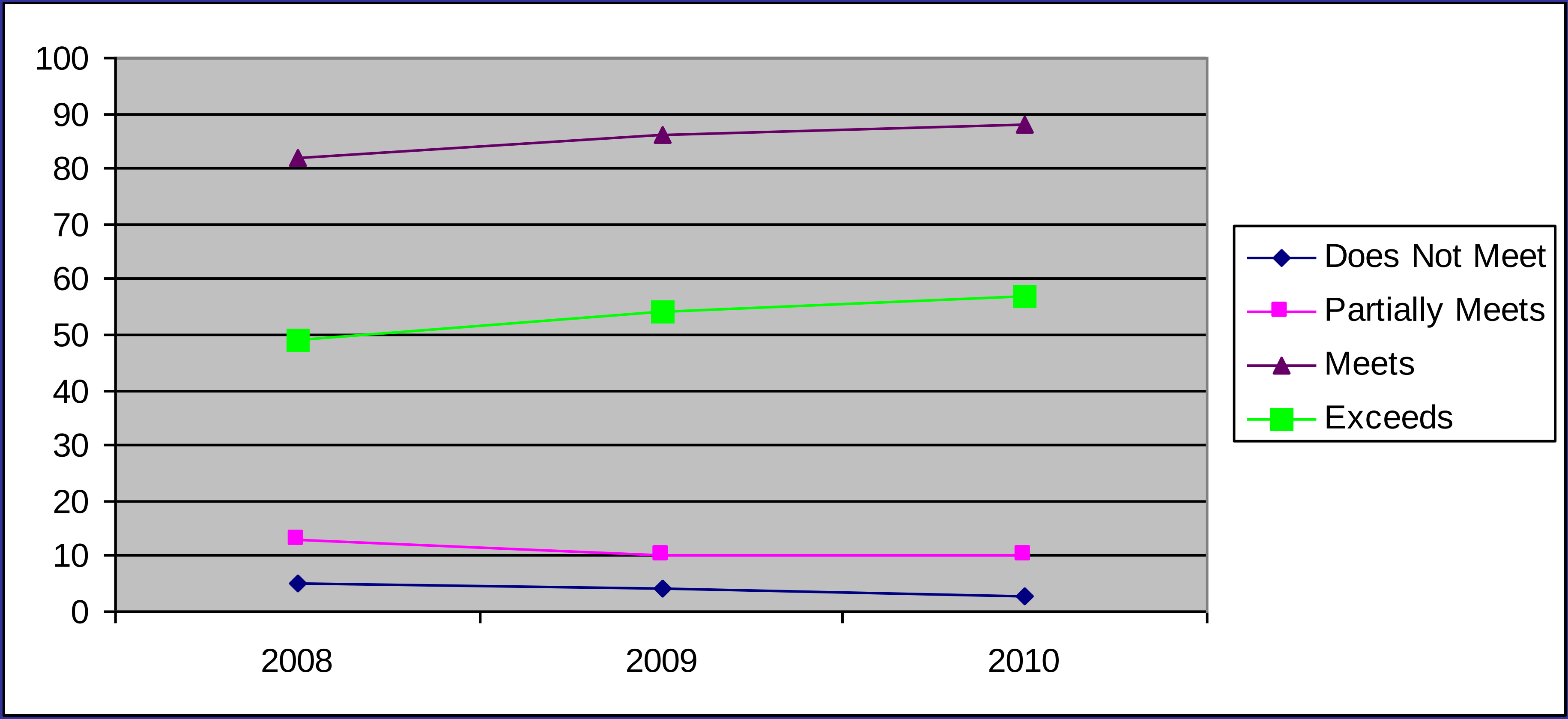
Wayzata Public Schools

MCAII Reading Results



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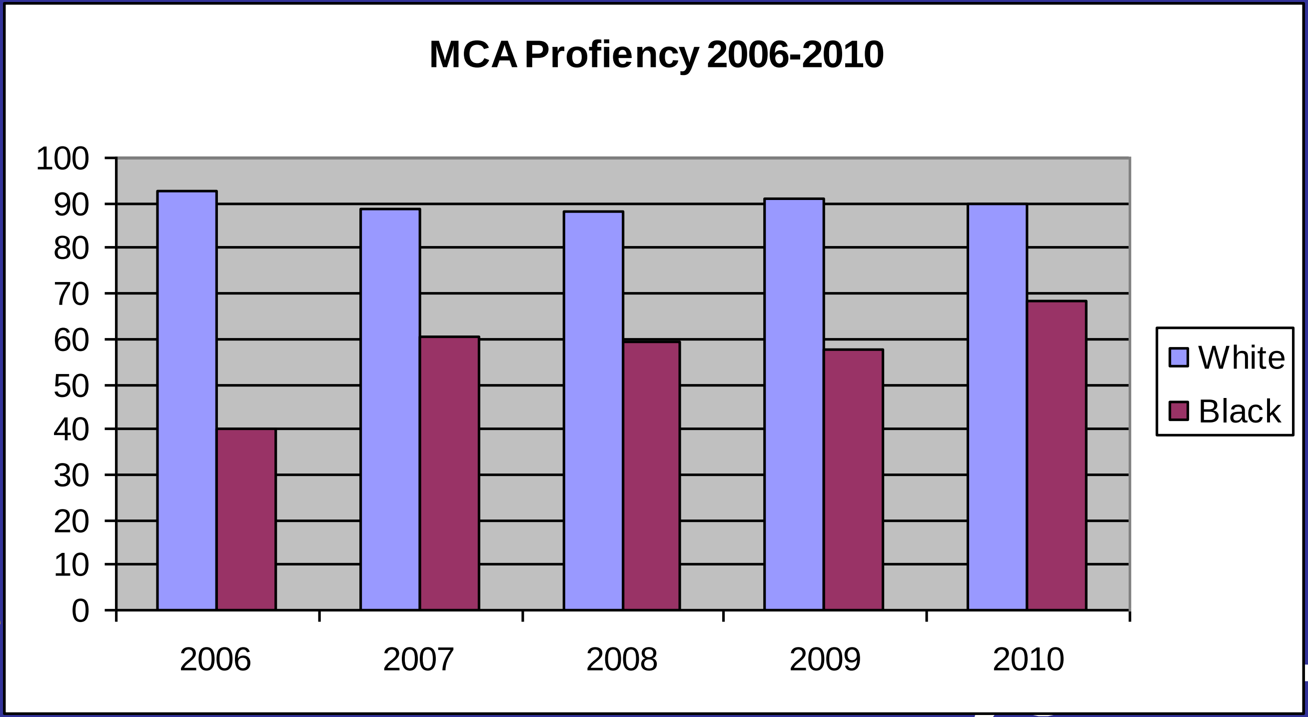
Elementary Equity Goal

★ **In the spring of 2011, 72% of our African American students in grades 3-5 will be proficient in the area of reading as measured by the MCA II reading test.**



A Mode
Learnin

Schools

Camp Sunset

- 47 Students Grades Kindergarten-4
- 21 Staff
- 18 Days
- Feedback was overwhelmingly positive from parents, students and staff.
- Data support student learning retention, especially Kindergarten and first grade.

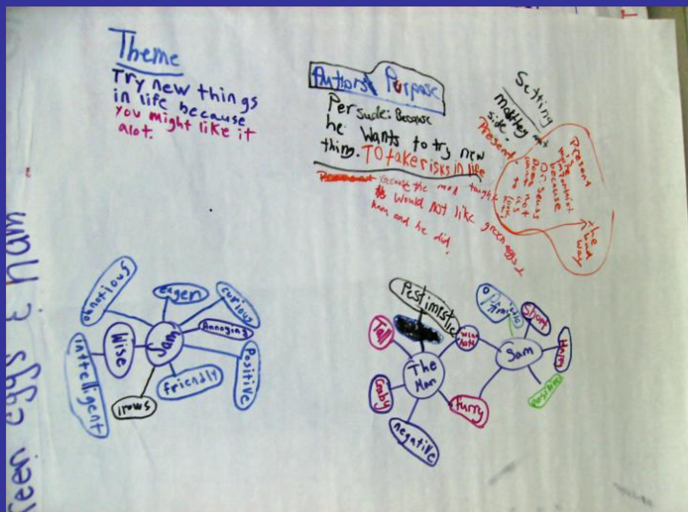
Growth Goal

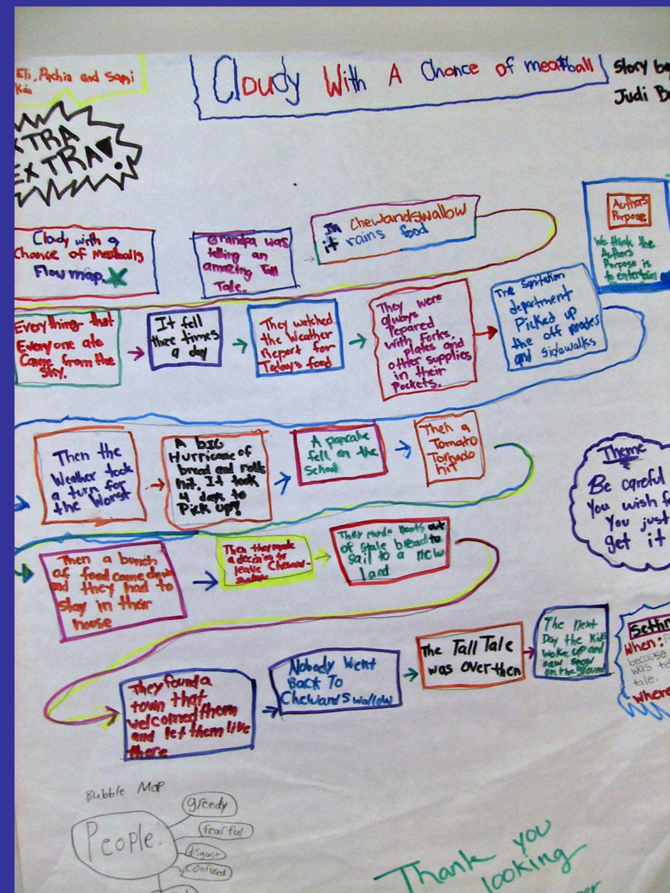
- The percentage of all students in grades 3-5 at Sunset Hill Elementary who achieve or exceed their individual RIT score growth target on the reading NWEA MAP will increase from 75.1% in spring 2010 to 85% in spring 2011, with growth being measured from Fall 2009 to Spring 2010.

The Café

A Model of Excellence Am
Learning Communities

Strategies from NUA





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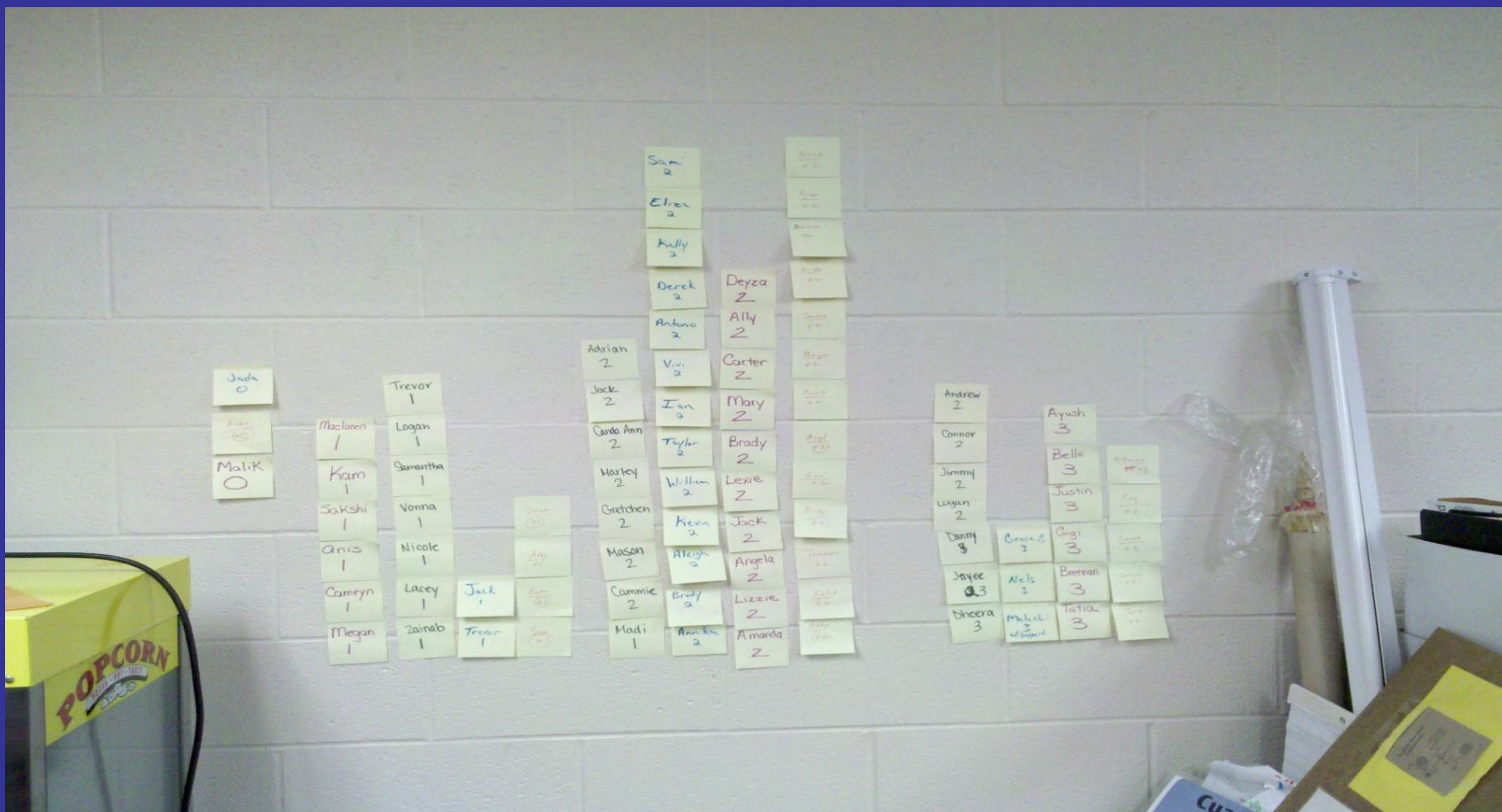
Wayzata Public Schools

Using Data to Inform Instruction



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Wayzata Public Schools

Wayzata Public Schools ISD 284

Finance and Business Services

MEMO

To: Superintendent and Board Members
From: Jim Westrum
Date: November 22, 2010
Re: INVESTMENT POLICY STATEMENT FOR INDEPENDENT SCHOOL DISTRICT 284 OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST, dated November 15, 2010.

The District established an Other Post-Employment Benefit (OPEB) Trust and appointed an OPEB Custodian, a Trustee and a Financial Investment Advisor at its May 11, 2009 school board meeting. The School Board also established a trust oversight committee and approved an Investment Policy Statement to fulfill its fiduciary responsibilities in regards to the management and safeguarding of OPEB Trust assets. On November 15, 2010, the first annual review of the OPEB Trust operations and performance was completed by the oversight committee. The district's actuary and the district's financial investment advisor were also in attendance at the annual review. The results of this review were subsequently shared with the school board finance committee.

The OPEB Trust yielded favorable results for the year-ended June 30, 2010 with total assets equaling $24,656,180 as of June 30, 2010. The beginning balance of the OPEB Trust as of July 1, 2009 was $21,500,000. No contributions were made to the OPEB Trust from the district and no withdrawals from the OPEB Trust were drawn to pay district incurred other post-employment benefits. The District is currently utilizing internal service fund assets to fund its annual OPEB obligations and plans to do so until those assets are exhausted. The District administration anticipates that internal service fund assets will be available to pay these expenses for the next five years.

In conjunction with the annual review of the OPEB trust, the OPEB Trust Oversight Committee completed its review and subsequent adoption of best practices in trust oversight and management as described in the publication, "Prudent Practices for Investment Stewards and Investment Advisors." This publication defines a Global Fiduciary Standard of Excellence for Investment Stewards and its handbook provides guidance to the committee on the practices a fiduciary should follow to demonstrate prudence in managing investment decisions. By following a structured process based on these practices, the committee can be confident that critical components of an investment strategy are being properly implemented.

Within the "Prudent Practices for Investment Stewards and Investment Advisors," best practices advise a fiduciary to annually review its Investment Policy Statement and amend it as necessary. The attached Investment Policy Statement (the IPS) is submitted for consideration and approval by the school board. This IPS has been modified to include additional guidance and practices as recommended by the committee.

It is important to note that the preparation and maintenance of the IPS is one of the most critical functions of the committee and school board in their roles as investment stewards. The IPS should be viewed as the business plan and the essential management tool for directing and communicating the activities of the trust and the management of its assets. It is a formal, long-range, strategic plan that allows the steward to coordinate the management of the investment program in a logical and consistent framework. All material investment facts, assumptions, and opinions are included in this IPS. In addition, the IPS provides guidance to the oversight committee on how to operate as well as setting up timelines and guidelines for meetings and agendas. The best practices in the operations of the Trust Oversight is established by twenty-two Practices which are intended to provide the framework of a disciplined investment process.

Recommended action is to approve the INVESTMENT POLICY STATEMENT FOR INDEPENDENT SCHOOL DISTRICT 284 OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST, dated November 15, 2010.

Jim Westrum
Executive Director
Finance and Business
Direct 763-745-5023
jim.westrum@wayzata.k12.mn.us

JW:kbm

INVESTMENT POLICY STATEMENT

FOR

INDEPENDENT SCHOOL DISTRICT 284

OTHER POST EMPLOYMENT BENEFITS (OPEB) TRUST

TABLE OF CONTENTS

SECTION PAGE

Background

The Independent School District 284 (the "District") has established the Independent School District 284 Other Post-Employment Benefits Trust (the "Trust"). The Trust is intended to provide for funding of non-pension post-employment benefits ("OPEB") for employees who meet the age and service requirements outlined in the District's plan documents. The main investment objective of the Trust is to achieve long-term growth of Trust assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the District's current and long-term OPEB obligations.

Scope

This Investment Policy Statement (the "Policy") reflects investment policy, objectives and constraints of the Trust.

Purpose

The purpose of the Policy is to state in a written document the overall investment objectives of the Trust, the methodology for choosing and overseeing the investments, and the evaluation measures used to evaluate the Trust's investments. The Trust's investment program is defined in the Policy to achieve the following:

1. Establish an OPEB Oversight Committee (the "Trust Committee") appointed by the governing body ("School Board") of District to oversee certain policies and procedures related to the operation and administration of the Trust.

2. Document investment objectives, performance expectations and investment guidelines for Trust assets.

3. Establish an appropriate investment strategy for managing all Trust assets, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the Trust.

4. Establish investment guidelines to control overall risk and liquidity.

5. Establish formalized periodic performance reporting requirements that will effectively monitor investment results and ensure that the investment policy is being followed.

6. Demonstrate that the Trust Committee is fulfilling its fiduciary responsibilities in the management of the investments of the Trust solely in the interests of participants and beneficiaries of the Trust.

7. Comply with all fiduciary, prudence, due diligence and legal requirements for Trust assets.

8. Conform to best practices of peers and as indicated in leading policy standards recommended by the Uniform Management of Public Employee Retirement Systems Act (MPERS), the Uniform Prudent Investor Act (UPIA), and the Employee Retirement Income Securities Act (ERISA).

This Policy has been prepared after consideration by the School Board and Trust Committee of the financial implications of a wide range of policies, and describes the prudent investment process that the School Board and Trust Committee deems appropriate. This Policy is intended to be dynamic in nature and will be amended or revised periodically as needed.

Investment Authority

The School Board has appointed the Trust Committee to oversee certain policies and procedures related to the operation and administration of the Trust. The ten member Trust Committee is comprised of three school board members of the District, the Superintendent, the Executive Director of Finance and Business, two members of the District's business office, one member of the Wayzata Education Association, and two members of the District's Citizen Financial Advisory Council. These Trust Committee members shall be required to understand the fiduciary duties and responsibilities associated with their appointment.

As fiduciaries under the Trust, the primary responsibilities of the members of the Trust Committee are to:

1. Prepare and maintain this Investment Policy Statement.
2. Ensure prudent diversification of the portfolio's assets to meet an agreed upon risk/return profile.
3. Ensure prudently selection investment options.
4. Control and account for all investment, record keeping and administrative expenses associated with the Trust.
5. Monitor and supervise all service vendors and investment options.
6. Comply with By-Laws and Operating Procedures for the OPEB Oversight Committee.
7. Periodically consider the underlying OPEB liability and the relevance of the investment program objectives to funding the current and future liability.
8. Avoid prohibited transactions and conflicts of interest.

The Trust Committee will have authority to implement the investment policy and guidelines in the best interest of the Trust to best satisfy the purposes of the Trust. In implementing the Policy, the Trust Committee believes it may delegate certain functions to:

1. An investment advisor to assist the Trust Committee in the investment process and to maintain compliance with the Policy. The investment advisor may assist in establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate. The investment advisor may also select investment managers with discretion to purchase, sell, or hold specific securities that will be used to meet the Trust's investment objectives. The investment advisor must be registered with the Securities and Exchange Commission.
2. A custodian to physically maintain possession of securities owned by the Trust, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales, among other duties. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Trust.
3. A trustee, such as a bank trust department to be trustee, to assume fiduciary responsibility for the administration of Trust assets.
4. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others to assist the Trust Committee in meeting its responsibilities and obligations to administer Trust assets prudently.

Appendix A provides By-Laws and Operating Procedures for the OPEB Oversight Committee.

Statement of Investment Objectives

The investment objectives of the Trust are as follows:

1. To invest assets of the Trust in a manner consistent with the following fiduciary standards:
   (a) all transactions undertaken must be for the sole interest of Trust beneficiaries and defray reasonable expenses in a prudent manner, and

   (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
2. To provide for funding and anticipated withdrawals on a continuing basis for payment of OPEB benefits and related expenses.
3. To conserve and enhance the value of Trust assets in real terms through asset appreciation and income generation, while maintaining a moderate investment risk profile.
4. To minimize principal fluctuations over the Time Horizon (as defined below).
5. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objective set forth in the Policy under the section labeled "Performance Expectations".

Investment Guidelines

Time Horizon

The Trust's investment objectives are based on a 15-year investment horizon. Interim fluctuations should be viewed with appropriate perspective. The Trust Committee has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

Liquidity and Diversification

In general, the Trust will hold up to six months of protected liquidity needs for Trust expenses in cash. The protected liquidity needs assets will always be held exclusively in cash equivalent investments. The remaining assets will be invested in longer-term securities. Investments shall be diversified with the intent to minimize the risk of investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments or industries.

Asset Allocation

The Trust Committee believes that to achieve the greatest likelihood of meeting the Trust's investment objectives and the best balance between risk and return for optimal diversification, the Trust should allocate assets into two broad classes called Investment Assets and Liquidity Assets. The Investment Assets will be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than the Trust's actuarial discount rate as described in the section titled "Performance Expectations". The Liquidity Assets will be held in cash equivalent investments and used to pay for benefits and Trust expenses.

Investment Assets		
Asset Classes	**Asset Weightings**	
	Range	**Target**
Domestic Equity	23% -43%	33%
International Equity	11%-31%	21%
REITs	0% -10%	6%
Inflation Hedge	0% -10%	0%
Fixed Income	25% -65%	40%
Cash Equivalent	0% -50%	0% (See note below)
Liquidity Assets		
Asset Classes	**Asset Weightings**	
	Range	**Target**
Cash Equivalent	0-100%	100%

The investment managers shall have discretion to temporarily invest a portion of the assets in cash equivalents when they deem it appropriate. The managers will be evaluated against their peers on the performance of the total funds under their direct management.

Rebalancing Philosophy

The asset allocation range established by the Policy represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the Policy ranges. When these divergences occur, the investment advisor will rebalance the asset mix to its appropriate targets and ranges. Similarly, if the cash requirement to handle liquidity needs falls to a level where near-term distributions (over the following six months or less) cannot be met and no contributions are anticipated, the investment advisor will rebalance the fund to its appropriate targets and ranges.

When the investment advisor is notified of new contributions, the investment advisor will review the Trust allocation and fill the liquidity allocation first and the remaining investment allocations last.

Risk Tolerance

The Trust will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon and that is consistent with the Trust's investment objectives.

Performance Expectations

Over the long-term, a rolling five year period, the performance objective for Trust assets will be to achieve an average total annual rate of return that is appropriate for the asset allocation strategy as stated in the Asset Guidelines included in this investment policy statement, currently expected at 6-7% annual return, Additionally, it is expected that the annual rate of return on Trust assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual Trust investments and blended benchmark comparisons for the Trust in its entirety.

Selection of Investment Managers

The investment advisor shall prudently select appropriate investment managers to manage the assets of the Trust. Managers must meet the following criteria:

- The investment manager must be a bank, insurance company, or investment adviser as defined by the Investment Advisers Act of 1940.
- With respect to Trust assets invested in a mutual fund, the Manager must provide historical quarterly performance data for the mutual fund compliant with Securities Exchange Commission ("SEC") and National Association of Securities Dealers ("NASD") standards.
- The investment manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS®), calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style and reported net of fees.
- The investment manager must provide detailed information on history of the firm, key personnel, support personnel, key clients, and fee schedule (including most favored nation clauses). This information can be a copy of a recent Request for Proposal (RFP) completed by the manager.
- The investment manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- The investment manager for portfolios other than Pooled Vehicles (see Guidelines for Portfolio Holdings) must confirm that it has received, understands and will adhere to the policy and any manager specific policies by signing a consent form provided to the investment manager prior to investment of Trust assets.

Guidelines for Portfolio Holdings

The investment advisor shall make every effort to prudently select funds that follow the guidelines listed below.

Pooled Vehicles

Every effort shall be made, to the extent practical, prudent and appropriate, to select commingled funds and/or mutual funds that have investment objectives and policies that are consistent with the Policy (as outlined in following sub-sections of the "Guidelines for Portfolio Holdings"). However, given the nature of commingled funds and mutual funds, it is recognized that there may be deviations between the Policy and the objectives of these pooled vehicles. A commingled fund or mutual fund will not be included in Trust portfolio unless it complies with the Investment Company Act of 1940's diversification requirement.

Cash Equivalents

Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

Equities

Pooled equity vehicles shall comply with the diversification rules outlined in the Investment Company Act of 1940. No more than 5% of the total stock portfolio valued at market may be invested in the common stock of anyone corporation. Ownership of the shares of one company shall not exceed 2% of those outstanding. Not more than 25% of stock valued at market may be held in anyone industry category. Other than these constraints, there are no quantitative guidelines suggested as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the investment manager(s).

The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the stocks of companies from multiple regions and sectors. The emerging markets exposure as defined by Morgan Stanley Capital International Inc. ("MSCI") should be limited to 35% of the non-U.S. portion of the portfolio.

In order to maintain an effective money management structure that is style neutral, the target growth to value allocation in all market capitalizations is one-to-one. However, in no case will the growth to value allocation for market capitalizations exceed two-to-one. Conversely, value shall not exceed growth by the same ratio.

Fixed Income

Fixed income investments shall be high quality pooled vehicles with a preponderance of the investments in (1) U.S. Treasury, federal agencies and U.S. Government guaranteed obligations, and (2) investment grade corporate issues including convertibles.

Fixed income securities of anyone issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets shall be at least "A", based on the rating of one of the three rating agencies (Fitch, Moody's or Standard & Poor's). In cases where the yield spread adequately compensates for additional risk, securities where two of the three rating agencies (Fitch, Moody's or Standard & Poor's) have average BB-ratings, can be purchased up to a maximum of 10% of total market value of fixed income securities.

Active bond management is encouraged and may require transactions that will temporarily lower the return or change the maturity of the portfolio in anticipation of market changes.

REITs

Real estate assets will be held in pooled vehicles, primarily holding Real Estate Investment Trusts and Servicing companies.

Inflation Hedge

Inflation hedging assets will include pooled vehicles holding among other assets: Treasury Inflation Protected Securities ("TIPS"), commodities or commodity contracts, index-linked derivative contracts, the equity of companies in businesses thought to hedge inflation.

Prohibited Investments

The following investments and transactions are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, short sales, margin transactions, private placements (with the exception of Rule 144A securities), venture capital funds, private equity, or hedge funds. Derivatives, options or futures for the purpose of portfolio leveraging are prohibited. Neither direct real estate equity nor natural resource properties such as oil, gas or timber may be held except by purchase of publicly traded securities or within Pooled Vehicles, except for existing real estate holdings. The purchase of collectibles is also prohibited.

Safekeeping

All securities shall be held by a custodian approved by the District and in consultation with the investment advisor for safekeeping of Trust assets. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the Trust Agreement. Assets of the Trust held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts.

Control Procedures

Review of Investment Objectives

The investment advisor shall review annually the appropriateness of the Policy for achieving the Trust's stated objectives. It is not expected that the Policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in the investment policy.

Review of Investment Performance

The investment advisor shall report on a quarterly basis to the Trust Committee to review the total Trust investment performance. In addition, the investment advisor will be responsible for keeping the Trust Committee advised of any material change in investment strategy, investment managers, and other pertinent information potentially affecting performance of the Trust.

The investment advisor shall compare the investment results on a quarterly basis to appropriate benchmarks, as well as market index returns in both equity and debt markets. Examples of benchmarks and indexes that will be used include the S&P 500 Index for large cap equities, Russell 2000 Index for small cap equities, MSCI Europe, Australia, and Far East Index (EAFE) for international equities, Barclays Capital Aggregate Bond Index for fixed income securities, and the U.S. 91 Day T -bill Index for cash equivalents.

Voting of Proxies

Investment manager(s) are expected to be aware of corporate provisions that may adversely affect stockholdings, including but not limited to "golden parachutes," "super majorities," "poison pills," "fair price" provisions, staggered boards of directors, and other tactics. Proxies should be vigorously voted with the interest of preserving or enhancing the security's value.

The investment manager(s) of a commingled funds or mutual fund that holds the assets of the Trust along with assets of other funds with conflicting proxy voting policies must reconcile the conflicting policies to the extent possible, and, if necessary, to the extent legally permissible, vote the proxies to reflect the policies in proportion to each fund's interest in the pooled fund.

The Trust Committee will vote the proxies of the mutual or commingled funds as necessary and appropriate.

Review of Trustee/Custodian Reports

The custodian shall produce statements on a monthly basis and certify that it is fulfilling its role to (1) hold securities and other assets for safekeeping, (2) report on holdings and transactions, (3) collect interest and dividends, and (4) effect settlement of trades. In consideration of a custody fee, the Trustee shall agree to act as a custodian to the Trust and hold Trust assets in a separate account in the name of the Trust, in accordance with the Trust Agreement.

Investment Policy Review

The Trust Committee will review this Policy at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the Policy will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Investment Policy Statement.

The Trust Committee will measure the Trust assets and compare them to the underlying OPEB liability at least annually. The purpose of this comparison is to determine whether the stated investment objectives are still relevant in consideration of the underlying current and future OPEB liability.

Adoption of Investment Policy Statement

Any changes and exceptions to the Policy will be made in writing by the Trust Committee and recommended to the School Board of Independent School District 284 for ratification and approval. Once adopted, changes and exceptions will be delivered to each investment manager, as appropriate, by the investment advisor.

Approved by the Independent School District 284 District OPEB Oversight Committee:

Resolved by:

Approved by the Independent School District 284 School Board:

Resolved by:

Appendix A

Section I: Formation of the OPEB Oversight Committee

1.1 Functions of the OPEB Oversight Committee

The OPEB Oversight Committee ("Trust Committee") shall perform the functions of an investment fiduciary responsible for the prudent management of the Trust assets ("Portfolio"). The Trust Committee will comply with all applicable fiduciary, prudence, and due diligence requirements experienced investment professionals would utilize; and with all applicable laws, rules, and regulations that may impact the Portfolio. The Trust Committee shall have the exclusive authority to establish, execute and interpret an investment policy statement for the Portfolio. The Trust Committee shall be responsible for the selection and retention of professional advisors to the Portfolio, which may include, but not necessarily be limited to, Investment Managers, an Investment Advisor, custodians, attorneys, accountants, and clerical staff.

1.2 Definition of a Fiduciary

A fiduciary is defined as a person who has the legal and/or implied moral responsibility to manage the assets of another person. A fiduciary must act solely in the best interests of that person. The Trust Committee is subject to certain duties and responsibilities, including, but not limited to:

1. Know the standards, laws, and trust provisions that impact the investment process of the Portfolio
2. Prudently diversify the Portfolio within an appropriate and specific risk/return profile, consistent with the Portfolio's prevailing investment objectives.
3. Prepare, execute, and maintain an investment policy statement
4. Have investment decisions made by prudent experts
5. Control and account for all investment-related expenses
6. Monitor the activities of all investment-related service vendors
7. Avoid conflicts of interest and prohibited transactions

1.3 Establishment of Trust Committee

The Trust Committee shall consist of such number of individuals as are appointed by the School Board of the Wayzata Independent School District 284. Any member of the Trust Committee may resign, and his or her successor, if any, shall be appointed by the Chairperson. Each Trust Committee member will acknowledge the acceptance of appointment to the Trust Committee in writing. No Trust Committee member shall have the authority to bind the Trust Committee in any contract or endeavor without the expressed written authority of the majority of the Trust Committee members.

1.4 Establishment of Officers

The Trust Committee shall have an office of Chairperson and a Secretary as appointed by the School Board of the Wayzata Public School District 284. The Chairperson shall be responsible for the conduct of all the meetings of the Trust Committee and shall have voting rights the same as any other Trust Committee member. The Chairperson shall perform such other duties as the Trust Committee may assign, and shall be the designated Agent for service of legal process. The Secretary shall be responsible for keeping minutes of the transactions of the Trust Committee and shall be the official custodian of records of the Trust Committee. The Secretary, together with the Chairperson, shall execute all official contracts of the Trust Committee. The Secretary shall compile Trust Committee agendas. The Chairperson and Secretary are authorized by the Trust Committee to execute any instruments necessary for the Trust Committee to conduct business.

1.5 Disclosure and Conflict of Interest

Notwithstanding any provision of law, no Trust Committee member shall vote or participate in a determination of any matter in which the Trust Committee member shall receive a special private gain. Trust Committee members have a duty of loyalty that precludes them from being influenced by motives other than the accomplishment of the purposes of the Portfolio. Trust Committee members, in the performance of their duties, must conform and act pursuant to the documents and instruments establishing and governing the Portfolio.

Trust Committee members recognize that all Trust transactions and selections are to be based on the integrity and competence of the parties with whom the Trust is dealing and upon financial merit and benefit to Trust participants and their beneficiaries, and not on personal relationships. Trust Committee members shall never act where there may be a conflict of interest or appearance of conflict of interest. They realize they occupy special positions of fiduciary trust and confidence such that each member must studiously and conscientiously avoid any reasonable appearance of conflict. A conflict of interest is understood to be presented in a situation wherein a relationship exists which could reasonably be expected to diminish independence or judgment in performance of official responsibilities as a Trust Committee member. Accordingly, a Trust Committee member shall not engage in conduct that constitutes or involves a conflict of interest. It is the Trust Committee member's duty to determine if a potential conflict of interest exists, to avoid the conflict, if possible, or, where applicable, to disclose a conflict. If a Trust Committee member determines that a conflict of interest or potential conflict of interest exists, that individual shall have an obligation to recuse themselves from participating in the matter. The Trust Committee member shall disclose the reason for any such recusal.

Section II: Meetings

2.1 Attendance at Board Meetings

The Trust Committee shall set its own schedule of meetings. Special meetings may be called by the Chairperson or by a majority of the Trust Committee members. The Trust Committee shall meet at least once each quarter. Notices of meetings shall not be required if waived by all members of the Trust Committee. In recognition of the importance of the work of the Trust Committee, regular attendance at the Trust Committee meetings is expected from all members. Any member who fails to attend two consecutive meetings of the Trust Committee without an excuse acceptable to the other Trust Committee members shall be deemed to have resigned from the Trust Committee. A majority of the members of the Trust Committee at the time in office shall constitute a quorum for the transaction of business. The action of the Trust Committee shall be determined by the vote or other affirmative expression by the majority of its members in attendance where a quorum is present.

2.2 Agendas and Other Meeting Materials

An agenda shall be prepared for each regular and special meeting of the Trust Committee. The agenda shall set forth those items upon which the Trust Committee anticipates taking action or discussing. Each agenda item shall have attached backup material necessary for discussion or action by the Trust Committee. A copy of the agenda and backup material shall be furnished to each Trust Committee member prior to commencement of the meeting. Full and complete minutes detailing records of deliberations and decisions shall be maintained and held by the Secretary. The Secretary shall record all acts and determinations of the Trust Committee, and all such records shall be preserved in the custody of the Secretary. Such record and documents shall be open at all times for inspection by Trust Committee members or for the purpose of making copies by any person designated by the School Board of the Wayzata Independent School District 284.

2.3 Rules of Order

In recognition of the importance of accomplishing the objectives of the Trust Committee in a most orderly fashion, the Trust Committee may establish rules of order or bylaws for the conduct of its meetings.

2.4 Appearance before the Trust Committee

All persons who are scheduled to make appearances before the Trust Committee shall be scheduled through the Secretary, and the Trust Committee may establish the time limits established for such meetings. Appearances before the Trust Committee may be in person or through a representative. All communications with the Trust Committee shall either be in writing to the Secretary, teleconference, or by personal appearance at a Trust Committee meeting.

____

Chairperson

Appendix B – Fiduciary Acknowledgement Letter

Subject: Appointment to OPEB Oversight Committee

Dear (Fiduciary):

You are hereby appointed to serve as a member of the OPEB Oversight Committee. As you will be serving as a fiduciary with specific duties and responsibilities which are outlined in the attached handbook, please become familiar with the contents and inform me of any questions and/or concerns you may have regarding your role.

In order to be a successful member of the OPEB Oversight Committee, you should note the following:

- It does not require extensive experience in securities analysis or portfolio management, but it does require a personal interest in understanding the basics of capital markets.
- It requires a sincere commitment to develop a consensus formulation of goals and objectives with your fellow committee members; the discipline to develop and follow long-term investment policies; the patience to evaluate events calmly in the context of long-term trends; and an understanding of personal and organizational strengths and weaknesses to determine when delegation and outsourcing is more appropriate.
- Most importantly, it requires the ability to get the right things done, otherwise known as effective management. A prudent investment process facilitates effective management by distinguishing important from unimportant tasks.

Please acknowledge receipt of this letter and your understanding of your fiduciary duties and responsibilities by signing and returning the attached Acceptance Letter to me.

Sincerely,

Chair
School Board of the Wayzata Public School District 284

Enclosure: *Prudent Practices for Investment Stewards* handbook

Appendix C – Fiduciary Acceptance Letter

Subject: Appointment to OPEB Oversight Committee

Dear Chairperson Peterson

I hereby accept my appointment to serve as a member of the OPEB Oversight Committee. I understand the fiduciary duties and responsibilities associated with my appointment.

Sincerely,

(Fiduciary)

PRUDENT PRACTICES FOR Investment Stewards

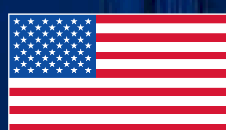
Defining a Global Fiduciary Standard of Excellence for Investment Stewards

Persons who have the legal responsibility for managing someone else's money, including trustees and investment committee members.

Written by
Fiduciary*360*

Technical Review by
American Institute of Certified Public Accountants

Legal Substantiations by
Reish Luftman Reicher & Cohen



U.S. Edition

Prudent Practices for Investment Stewards

(U.S. Edition)

Defining a Global Fiduciary Standard of Excellence

Written by ***Fiduciary360***

Legal substantiations were prepared by the law firm of ***Reish Luftman Reicher & Cohen***.

Fiduciary practices referenced in this handbook have been developed by the ***Foundation for Fiduciary Studies*** (Copyright © 2000-2008. Foundation for Fiduciary Studies).

Technical review by the AICPA's Personal Financial Planning Executive Committee (Investment Advisory Task Force)

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This fiduciary handbook is derived from ***Prudent Investment Practices***, which was co-produced by the *Foundation for Fiduciary Studies* and the *American Institute of Certified Public Accountants* (AICPA). The handbook was first published in April 2003.

Several of the handbook's themes are from ***The Management of Investment Decisions*** (New York: McGraw-Hill, 1996) by Donald B. Trone, William R. Allbright, and Philip R. Taylor

AICPA Editorial Statement to Readers

The Personal Financial Planning Division of the American Institute of Certified Public Accountants (AICPA) has served as the technical editor for “Prudent Practices for Investment Stewards (U.S. Edition)” (Handbook). The AICPA’s participation in the development of the Handbook is intended to promote and protect the interests of the consumer public and to perpetuate the delivery of competent and objective investment advice.

The Handbook was developed specifically for Investment Stewards – trustees, investment committee members, attorneys, accountants, institutional investors, and anyone else who is involved in managing investment decision-making. The Handbook will serve as a foundation for prudent investment fiduciary practices. It provides investment fiduciaries with an organized process for making informed and consistent decisions. Fiduciaries must, however, exercise professional judgment when applying the Practices; consulting legal counsel and other authorities when appropriate.

The investment practices contained within this handbook have been reviewed in detail by the Fiduciary Task Force of the AICPA’s Personal Financial Planning Executive Committee. The full Executive Committee has reviewed the work of the Task Force and approves their conclusions. Even with this level of review, this handbook does not represent authoritative literature for CPAs practicing as a financial advisor. The AICPA’s participation is solely in the capacity of technical editor.

Although the fiduciary practices primarily focus on many of the legal requirements of investment fiduciaries, the scope of the Handbook addresses the Employee Retirement Income Securities Act (ERISA), the Uniform Prudent Investor Act (UPIA), and the Uniform Management of Public Employee Retirement Systems Act (MPERS). Investment Stewards must become familiar, and comply, with all other federal and state laws applicable to the fiduciary’s particular field of practice including the rules and restrictions imposed by regulatory bodies such as the Securities and Exchange Commission, General Accounting Office, Department of Labor/ERISA and the Internal Revenue Service.

We gratefully acknowledge the invaluable contributions of the many CPA’s who were instrumental in the review of the Handbook. The PFP Division would also like to acknowledge the special efforts of Clark M. Blackman II, CPA/PFS, Ken A. Dodson, CPA/PFS, Joel Framson, CPA/PFS, Charles R. Kowal, JD, CPA, Michele L. Schaff, CPA/PFS, AIFA, and Scott K. Sprinkle, CPA/PFS.

The AICPA is the national professional organization of CPAs, with more than 330,000 members in business and industry, public practice, government, and education. For more information about the AICPA, visit its Web site at ***www.aicpa.org***.

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Prudent Practices for Investment Stewards (U.S. Edition)

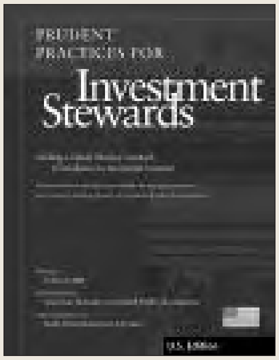
Prudent Practices for Investment Stewards (U.S. Edition)

Introduction

Prudent Practices for Investment Stewards (U.S. Edition)

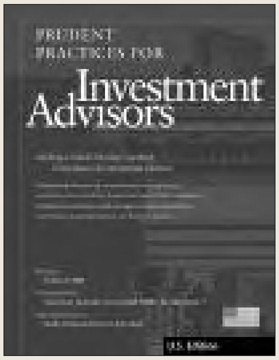
This publication is part of a series of fiduciary handbooks published by Fiduciary360 to define Global Standards of Excellence for investment fiduciaries. The handbooks are designed to be reference guides for knowledgeable investors, as opposed to in-depth "how to" manuals for persons who are not familiar with basic investment management procedures. Handbooks are available through Fiduciary360 (fi360.com) or through any of the Distribution Partners listed on the next page

Handbooks that are referenced as a "U.S. Edition" are fully substantiated by U.S. legislation, case law, and regulatory opinion letters. Handbooks that are referenced as a "Worldwide Edition" are substantiated by industry best practices.



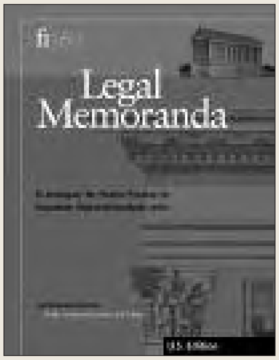
Prudent Practices for Investment Stewards
(U.S. Edition)

Fiduciary practices for persons who have the legal responsibility for managing investment decisions (trustees and investment committee members).



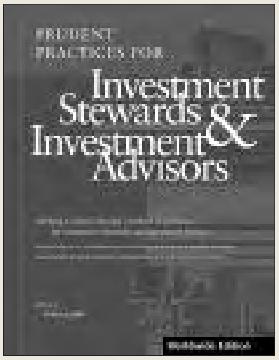
Prudent Practices for Investment Advisers *(U.S. Edition)*

Fiduciary practices for professionals who provide comprehensive and continuous investment advice, including wealth managers, financial advisors, trust officers, investment consultants, financial consultants, financial planners, and fiduciary advisers.



Legal Memoranda *(U.S. Edition)*

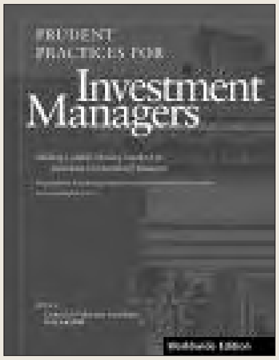
Legal opinions and substantiation for all of the practices defined for Investment Stewards and Investment Advisors in the U.S.



Prudent Practices for Investment Stewards and Investment Advisors *(Worldwide Edition)*

Fiduciary practices which define a Global Standard of Excellence for Investment Stewards and Investment Advisors.

Fiduciary360 has also developed handbooks and substantiation for Canada, New Zealand, and Singapore.



Prudent Practices for Investment Managers *(Worldwide Edition)*

Fiduciary practices which define a Global Standard of Excellence for Investment Managers – professionals who have discretion to select specific securities for separate accounts, mutual funds, commingled trusts, and unit trusts.

Fiduciary360 is also a founding member of **CEFEX** (Centre for Fiduciary Excellence), which is a global initiative established to define and promote Global Fiduciary Standards of Excellence, and to serve as an independent rating and certification organization.

CEFEX *has chosen the stylized version of the Greek letter "Phi," to represent fiduciary "trustworthiness" and/or "excellence."*

As a certifying organization, **CEFEX** also defines formal procedures to assess whether an investment fiduciary is in conformance with defined practices. An entry level verification is a first-party assessment, referred to as a SAFE™ (Self-Assessment of Fiduciary Excellence). A corresponding SAFE has been created for each handbook in the fiduciary series.

Distribution Partners

The following organizations serve as distributors for the fiduciary handbooks and SAFEs.

Actium, LLC	www.myactium.com
Alpha Wealth Strategies	www.alphawealthstrategies.com
American Portfolios	www.americanportfolios.com
Ardor Fiduciary Services, Ltd.	www.prudentfiduciary.com
Bruton Financial Advisors, LLC	www.brutonfinancial.com
BST Retirement Services, LLP	www.bstco.com
Canon Capital	www.canoncapital.com
Charles Schwab & Co., Inc.	www.schwab.com
Charles Stephen & Co., Inc.	www.charlesstephen.com
Chubb Group	www.chubb.com
Comerica, Inc.	www.comerica.com
Cornerstone Advisors Asset Management, Inc.	www.cornerstone-companies.com
Delaware Investments	www.delawareinvestments.com
Deutsche Bank	www.db.com
Federated Investors	www.federatedinvestors.com
Fidelity Investments	www.fidelity.com
Freund & Co. Investment Advisors, L.C.	St. Louis, MO
Gartmore Global Investments	www.gartmore.us
Ingham Group	www.ingham.com
Inspired Capitalworks	www.inspiredcapitalworks.com
Lindner Capital Advisors	www.lcaus.com
Managed Accounts Consulting Group of Prudential Investors	www.managedaccounts.com
Managers Investment Group	www.managersinvest.com
Mark J. Buchine	www.lpl.com/mark.buchine
McKinley Carter Wealth Services	www.mc-ws.com
Midwest Fiduciary	www.midwestfiduciary.com
National Association of College and University Business Officers (NACUBO)	www.nacubo.org
Plante Moran Financial Advisers	www.pmfa.com
Shea, Harley & Anderson	
Sheridan Road Financial	www.sheridanroad.com
Silver Oak Wealth Advisors, LLC	www.silveroakwa.com
Sprinkle Financial Consultants, LLC	Scott@sprinklefinancial.com
Stanton Group	www.stanton-group.com
The Pension Specialists, LLC	www.pensioninsider.com
Thornburg Investment Management	www.thornburginvestments.com
Victory Asset Management Co., Inc.	www.victoryasset.com
Wharton Advisors	www.whartonadvisors.net

An investment fiduciary is someone who is managing the assets of another person and stands in a special relationship of trust, confidence, and/or legal responsibility.

It's About Process

The vast majority of the nation's liquid investable wealth is in the hands of investment fiduciaries, and the success or failure of investment fiduciaries can have a material impact on the fiscal health of this country. As critical as their role is, more needs to be done to define the details of a fiduciary's prudent investment process.

This handbook is about the Practices a fiduciary should follow to demonstrate prudence in managing investment decisions. By following a structured process based on these Practices, the fiduciary can be confident that critical components of an investment strategy are being properly implemented.

The term, "fiduciary," can be divided further into three groups:

Investment Steward – *A person who has the legal responsibility for managing investment decisions (including trustees and investment committee members).*

Investment Advisor – *A professional who is responsible for managing comprehensive and continuous investment decisions (including wealth managers, financial advisors, trust officers, financial consultants, investment consultants, financial planners, and fiduciary advisers).*

Investment Manager – *A professional who has discretion to select specific securities for separate accounts, mutual funds, commingled trusts, and unit trusts.*

Editorial Note: This document uses the terms "adviser" and "advisor."

"Adviser," as in "fiduciary adviser," is in reference to the term defined by the 2006 Pension Protection Act.

"Advisor," as used by Fiduciary360 throughout its materials, refers to the professional who is providing comprehensive and continuous investment advice.

Investment Stewards, along with their Investment Advisor if the Steward has retained one, have the most important, yet most misunderstood, role in the investment process: to manage the investment Practices (defined in this handbook), without which the other components of the investment strategy cannot be defined, implemented, or evaluated. The Investment Steward is responsible for **managing** the overall investment strategy: deciding on the asset allocation, defining the details of the strategy, implementing the strategy with appropriate Investment Managers, and monitoring the strategy on an ongoing basis.

It's About Excellence

This handbook also defines a Global Standard of Excellence and what can be done to improve an Investment Steward's decision-making process. The excellence is established by twenty-two *Practices* which are intended to provide the framework of a disciplined investment process.

The twenty-two *Practices* are organized under a four-step Fiduciary Quality Management System. The steps are consistent with the global ISO 9000 Quality Management System standard, which emphasizes continual improvement to a decision-making process:

Step 1: Organize
(Practices that begin with S-1.__)

Step 2: Formalize
(Practices that begin with S-2.__)

Step 3: Implement
(Practices that begin with S-3.__)

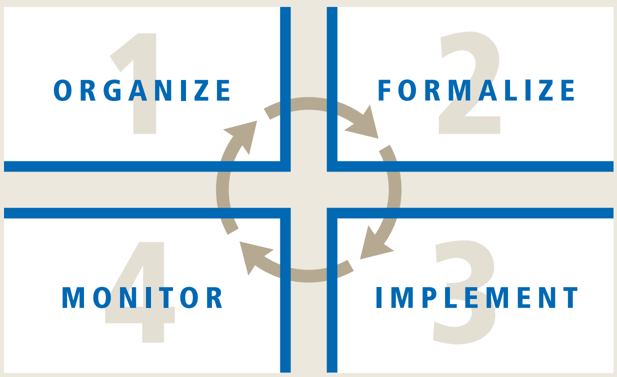
Step 4: Monitor
(Practices that begin with S-4.__)

For each of the twenty-two *Practices*, one or more *Criteria* are provided to establish the scope of the Practice, and to help define the details of the *Global Fiduciary Standard of Excellence*.

The *Practices* represent the minimum process prescribed by law; the *Criteria* represent the details of the Global Standard of Excellence.

Fiduciary Quality Management System

(Consistent with the ISO 9000 QMS Continual Improvement Process)



Components of a Standard

The twenty-two ***Practices*** for Investment Stewards are a mirror image of the ***Practices*** that have been defined for Investment Advisors, since the primary role of the Advisor is to assist with the management of the Steward's fiduciary roles and responsibilities.

Investment Managers, on the other hand, have a unique role and an additional twenty-four ***Practices*** have been defined for evaluating whether an Investment Manager is worthy of a fiduciary mandate.

In total, forty-six different fiduciary ***Practices*** have been identified, detailing a prudent process for Investment Stewards, Investment Advisors, and Investment Managers. These ***Practices*** are summarized in "*The Periodic Table of Global Fiduciary Practices*," copied below, but can be viewed in more detail in the foldout in the back of the handbook.

The Periodic Table of Global Fiduciary Practices

Practice M-1.1 Senior management demonstrates expertise in their field, and there is a clear succession plan in place.	**Practice M-1.2** There are clear lines of authority and accountability, and the mission, operations, and resources operate in a coherent manner.			**Practice SA-2.1** An investment time horizon has been identified.	**Practice SA-2.2** A risk level has been identified.	**Practice M-2.1** The organization provides disclosures which demonstrate there are adequate resources to sustain operations.	**Practice M-2.2** The organization has a defined business strategy which supports their competitive positioning.
Practice M-1.3 The organization has the capacity to service its client base.	**Practice M-1.4** Administrative operations are structured to provide accurate and timely support services and are conducted in an independent manner.	**Practice SA-1.1** Investments are managed in accordance with applicable laws, trust documents, and written investment policy statements (IPS).	**Practice SA-1.2** The roles and responsibilities of all involved parties (fiduciaries and non-fiduciaries) are defined, documented, and acknowledged.	**Practice SA-2.3** An expected, modeled return to meet investment objectives has been identified.	**Practice SA-2.4** Selected asset classes are consistent with the identified risk, return, and time horizon.	**Practice M-2.3** There is an effective process for allocating and managing both internal and external resources and vendors.	**Practice M-2.4** There are effective and appropriate external management controls.
Practice M-1.5 Information systems and technology are sufficient to support administration, trading, and risk management needs.	**Practice M-1.6** The organization has developed programs to attract, retain, and motivate key employees.	**Practice SA-1.3** Fiduciaries and parties in interest are not involved in self-dealing.	**Practice SA-1.4** Service agreements and contracts are in writing, and do not contain provisions that conflict with fiduciary standards of care.	**Practice SA-2.5** Selected asset classes are consistent with implementation and monitoring constraints.	**Practice SA-2.6** There is an IPS which contains the detail to define, implement, and manage a specific investment strategy.	**Practice M-2.5** The organization has a defined process to control its flow of funds and asset variation.	**Practice M-2.6** Remuneration of the company and compensation of key decision-makers is aligned with client interests.
	Practice M-1.7 There is a formal structure supporting effective compliance.	**Practice SA-1.5** Assets are within the jurisdiction of courts, and are protected from theft and embezzlement.	1 ORGANIZE	2 FORMALIZE	**Practice SA-2.7** The IPS defines appropriately structured, socially responsible investment (SRI) strategies (where applicable).	**Practice M-2.7** The organization has responsible and ethical reporting, marketing, and sales practices.	**Practice M-2.8** There is an effective risk-management process to evaluate both the organization's business and investment risk.
Practice M-4.1 There is a defined process for the attribution and reporting of costs, performance, and risk.	**Practice M-4.2** All aspects of the investment system are monitored and are consistent with assigned mandates.	**Practice SA-4.1** Periodic reports compare investment performance against appropriate index, peer group, and IPS objectives.	4 MONITOR	3 IMPLEMENT	**Practice SA-3.1** The investment strategy is implemented in compliance with the required level of prudence.	**Practice M-3.1** The asset management team operates in a sustainable, balanced, and cohesive manner.	**Practice M-3.2** The investment system is defined, focused, and consistently adds value.
Practice M-4.3 Control procedures are in place to periodically review policies for best execution, "soft dollars," and proxy voting.	**Practice M-4.4** There is a process to periodically review the organization's effectiveness in meeting its fiduciary responsibilities.	**Practice SA-4.2** Periodic reviews are made of qualitative and/or organizational changes of investment decision-makers.	**Practice SA-4.3** Control procedures are in place to periodically review policies for best execution, "soft dollars," and proxy voting.	**Practice SA-3.2** Applicable "safe harbor" provisions are followed (when elected).	**Practice SA-3.3** Investment vehicles are appropriate for the portfolio size.	**Practice M-3.3** The investment research process is defined, focused, and documented.	**Practice M-3.4** The portfolio management process for each distinct strategy is clearly defined, focused, and documented.
		Practice SA-4.4 Fees for investment management are consistent with agreements and with all applicable laws.	**Practice SA-4.5** "Finder's fees" or other forms of compensation that may have been paid for asset placement are appropriately applied, utilized, and documented.	**Practice SA-3.4** A due diligence process is followed in selecting service providers, including the custodian.		**Practice M-3.5** The trade execution process is defined, focused, and documented.	
			Practice SA-4.6 The re is a process to periodically review the organization's effectiveness in meeting its fiduciary responsibilities.				

LEGEND:
Practices in gold that begin with an "SA" define a fiduciary standard of excellence for Investment Stewards and Investment Advisors.
Practices in blue that begin with an "M" define a fiduciary standard of excellence for Investment Managers.
"SA" Practices highlighted are best reviewed in conjunction with Investment Managers Practices.

It's About Law

The legal ***Substantiation*** for each Practice is also provided. All twenty-two Practices are substantiated by legislation, case law, and/or regulatory opinion letters from:

ERISA—Employee Retirement Income Security Act (impacts qualified retirement plans)

UPIA—Uniform Prudent Investor Act (impacts private trusts)

UPMIFA—Uniform Prudent Management of Institutional Funds Act (impacts foundations, endowments, and government-sponsored charitable institutions)

MPERS—Uniform Management of Public Employee Retirement Systems Act (impacts state, county, and municipal retirement plans)

See Comments section on page 14 for more information regarding these legislative acts.

If an Investment Steward read all of these Acts and identified the common fiduciary practices the Steward would discover seven common practices. We have coined the term "Global Fiduciary Precepts" to denote these seven practices. They are:

1. **Know standards, laws, and trust provisions.**
2. **Diversify assets to specific risk/return profile of client.**
3. **Prepare investment policy statement.**
4. **Use "prudent experts" (for example, an Investment Manager) and document due diligence.**
5. **Control and account for investment expenses.**
6. **Monitor the activities of "prudent experts."**
7. **Avoid conflicts of interest and prohibited transactions.**

Anytime an investment question is raised, the Steward should map the question against the seven Global Fiduciary Precepts. For example, if a committee member were to ask: "Should we invest in a hedge fund?" The Steward should be thinking:

How would this impact the asset allocation?

Does the IPS provide for this type of investment strategy?

Do we have the resources to conduct a proper due diligence to select an appropriate hedge fund manager?

Do we have the capability to select and monitor this type of investment option?

Will the overall investment management fees rise if we participate in this type of investment strategy?

It's About the "Tone at the Top"

"Much has been written about 'tone at the top,' the ethical standards that Boards and chief executives set, and its importance cannot be overestimated. Organizational behavior oftentimes mirrors the standards of integrity and fair dealing (i.e., avoidance of conflicts of interests, and self entitlements) exhibited by Board members and high ranking officials."

Navigant Consulting,
January, 2006

Investment Stewards, Investment Advisors and Investment Managers who do not foster and promote a culture of fiduciary responsibility are going to lack the sensitivity and awareness to identify the fiduciary breaches of others. When a fiduciary has its own conflicts of interests, then that fiduciary will be marginalized at best; corrupted at worst.

"Society depends upon professionals to provide reliable, fixed standards in situations where the facts are murky or the temptations too strong. Their principal contribution is an ability to bring sound judgment to bear on these situations. They represent the best a particular community is able to muster in response to new challenges."

Dr. Robert Kennedy,
University of St. Thomas

Investment fiduciaries are challenged by the need to foster a culture of fiduciary responsibility that is defined by reliable, fixed standards. The management of investment decisions is not an easy task, even for trained investment professionals; and a nearly impossible task for lay decision-makers who serve as trustees and investment committee members of retirement plans, foundations, endowments, and personal trusts. Since professional and lay decision-makers depend on an assortment of industry vendors for assistance in managing their diverse roles and responsibilities, it is important to foster and promote a culture of fiduciary responsibility with all involved parties.

It's About the Benefits of Having a Defined Standard

The twenty-two Practices are easily adaptable to all types of portfolios, regardless of size or intended use, and should:

- Help to establish evidence that the Steward is following a prudent investment process.
- Serve as a practicum for all parties involved with investment decisions (Investment Advisors, Investment Managers, accountants, and attorneys), and provide an excellent educational outline of the duties and responsibilities of Investment Stewards.
- Potentially help to increase long-term investment performance by identifying more appropriate procedures for:
    - Diversifying the portfolio across multiple asset classes and peer groups
    - Evaluating investment management fees and expenses
    - Selecting Investment Managers
    - Terminating Investment Managers that no longer are appropriate
- Help uncover investment and/or procedural risks not previously identified, which may assist in prioritizing investment management projects.
- Encourage Stewards to compare their practices and procedures with those of their peers.
- Assist in establishing benchmarks to measure the progress of the Investment Steward.

Legal Counsel's Editorial Statement

The fiduciary practices described in this handbook address many of the ethical and procedural requirements of Investment Stewards. In addition, the Steward must become familiar, and comply, with all other laws applicable to the Steward's duties and responsibilities.

This handbook is not intended to be used as a source of legal advice. The Investment Steward should discuss the topics with legal counsel knowledgeable in this specific area of the law. References to laws, case law, and/or regulatory opinion letters are provided merely as substantiation to the suggested practices. Nor is this handbook intended to represent specific investment advice.

The scope of this handbook does not address: (1) financial, actuarial, and/or recordkeeping issues; (2) valuation issues of closely held stock, limited partnerships, hard assets, insurance contracts, hedge funds, or blind investment pools; and/or (3) risk management issues such as the use of derivative and/or synthetic financial instruments.

Comments Regarding the UPIA, UPMIFA, and MPERS

The UPIA was released by the National Conference of Commissioners on Uniform State Laws in 1994, and subsequently approved by the American Bar Association and American Bankers Association. The UPIA serves as a default statute for private trusts. Ordinarily, the provisions of a private trust prevail. If a trust document is silent regarding a particular fiduciary duty, such as the duty to diversify, then the provisions of the UPIA apply.

State Adoptions:

Alabama
Alaska
Arizona
Arkansas
California
Colorado
Connecticut
District of Columbia
Hawaii
Idaho
Illinois
Indiana
Iowa
Kansas
Maine
Massachusetts
Maryland
Michigan
Minnesota
Mississippi
Missouri
Montana
Nebraska
Nevada
New Hampshire
New Jersey
New Mexico
North Carolina
North Dakota
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina
South Dakota
Tennessee
Texas
U.S. Virgin Islands
Utah
Vermont
Virginia
Washington
West Virginia
Wisconsin
Wyoming

In the opinion of the authors, states that have an Act substantially similar to UPIA (as it pertains to defining an investment fiduciary standard of care) are: Delaware, Florida, Georgia, and New York.

If a particular state is not identified above, then the Advisor is advised to seek the opinion of qualified legal counsel on the fiduciary standard of care that is applicable to that particular state, and whether any of the fiduciary practices covered in this handbook are not applicable.

MPERS was proposed in 1997 by the NCCUSL and may impact state, county, and municipal retirement plans. To date, Maryland and Wyoming are the only states that have formally adopted this act.

In the opinion of the authors, South Carolina has adopted an act substantially similar to MPERS (as it pertains to defining an investment fiduciary standard of care).

UPMIFA was released in July 2006 by the NCCUSL. It is now available for consideration of adoption by state legislatures. It impacts foundations, endowments, and government-sponsored charitable organizations. It is replacing UMIFA, which has been adopted by 47 states and the District of Columbia.

Please visit www.nccusl.org for more information on uniform state laws.

Practice S-1.1

Investments are managed in accordance with all applicable laws, trust documents, and written investment policy statements (IPS).

The starting point for the Investment Steward is to collect, analyze, and review all of the documents pertaining to the establishment and management of the investments.

As in managing any financial decision, the Steward has to set definitive goals and objectives that are consistent with the portfolio's current and future resources, the limits and constraints of applicable trust documents and statutes, and, in the case of personal trusts, the needs and requirements of each beneficiary.

Proof that such a framework has been established presumes written documentation exists in some form.

Practical Application

The following documents, at a minimum, should be collected, reviewed, and analyzed:

1. A copy of the IPS, written minutes, and/or files from investment committee meetings
2. Applicable trust documents (including amendments)
3. Custodial and brokerage agreements
4. Service agreements with investment management vendors (custodian, money managers, investment consultant, actuary, accountant, and attorney)
5. Information on retained Investment Managers; specifically the ADV for each separate account manager and prospectus for each mutual fund
6. Investment performance reports from the Investment Advisor, Investment Manager(s), and/or custodian(s)
7. Information on Investment Advisor (if one is retained)

Criteria

1.1.1 Investments are managed in accordance with all applicable laws.

1.1.2 Investments held in trust are managed in accordance with trust documents.

1.1.3 Investments are managed in accordance with the written IPS.

1.1.4 Documents pertaining to the investment management process are filed in a centralized location.

Practice S-1.1

Investments are managed in accordance with all applicable laws, trust documents, and written investment policy statements (IPS).

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§3(38)(C); §104(b)(4); §402(a)(1); §402(b)(1); §402(b)(2); §403(a); §404(a)(1)(D); §404(b)(2)

Regulations
29 C.F.R. §2509.75-5 FR-4; 29 C.F.R. Interpretive Bulletin 75-5; 29 C.F.R. §2509.94-2(2); 29 C.F.R. Interpretive Bulletin 94-2 (July 29, 1994)

Case Law
Morse v. New York State Teamsters Conference Pension and Retirement Fund, 580 F. Supp. 180 (W.D.N.Y. 1983), aff'd, 761 F.2d 115 (2d Cir. 1985); *Winpisinger v. Aurora Corp. of Illinois,* 456 F. Supp. 559 (N.D. Ohio 1978); *Liss v. Smith,* 991 F. Supp. 278, 1998 (S.D.N.Y. 1998); *Dardaganis v. Grace Capital, Inc.,* 664 F. Supp. 105 (S.D.N.Y. 1987), aff'd, 889 F.2d 1237 (2d Cir. 1989)

Other
Interpretive Bulletin 75-5, 29 C.F.R. §2509.75-5; Interpretive Bulletin 94-2, 29 C.F.R. §2509.94-2

Uniform Prudent Investor Act [UPIA]

§2(a) – (d); §4

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §3(e)

Management of Public Employee Retirement Systems Act [MPERS]

§4(a) – (d); §7(6); §8(b)

Practice S-1.2

The roles and responsibilities of all involved parties (fiduciaries and non-fiduciaries) are defined, documented, and acknowledged.

A fiduciary is defined as someone acting in a position of trust on behalf of, or for the benefit of, a third party. Fiduciary status can be difficult to determine, and is based on *facts and circumstances*. In general, the issue is whether a person has effective control or influence over substantial investment decisions. It is not uncommon for fiduciaries to be unaware of their status.

There are numerous parties involved in the investment process, and each should have their specific duties and requirements detailed in the Investment Policy Statement, or otherwise documented in writing. This ensures continuity of the investment strategy when there is turnover, helps to prevent misunderstandings between parties, and helps to prevent omission of critical functions.

Each party involved in the investment process should acknowledge their defined duties and understand their role in the process. Those designated as fiduciaries need to acknowledge their level and understanding of fiduciary responsibility.

Stewards are responsible for the general management of the investments—in essence, the management of the twenty-two *Practices* presented in this handbook. If statutes and trust provisions permit, the Steward may delegate certain decisions to professional money managers, trustees (co-fiduciaries), and/or investment advisors and consultants. But even when decisions have been delegated to a professional, a Steward can never fully abdicate these primary responsibilities:

- Determining investment goals and objectives
- Approving an appropriate asset allocation strategy
- Establishing an explicit, written investment policy consistent with identified goals and objectives
- Approving appropriate money managers, mutual funds, or other "prudent experts" to implement the investment policy
- Monitoring the activities of the overall investment program for compliance with the investment policy
- Avoiding conflicts of interest and prohibited transactions

As mentioned previously in the Comments Section on the UPIA, the provisions of the UPIA are "default" provisions; i.e. the intentions and guidelines provided by the trust maker in the trust document delegates investment responsibility to, or otherwise appoints, an Investment Advisor other than the trustee to the trust, and the document clearly directs the trustee to allow such delegation, and absolves the trustee of such responsibility, then the trust document prevails.

Criteria

1.2.1 The roles and responsibilities of all parties are documented in the IPS.

1.2.2 All parties demonstrate an awareness of their duties and responsibilities.

1.2.3 All parties have acknowledged their status in writing.

1.2.4 Investment committees have and follow a defined set of by-laws.

Practice S-1.2

The roles and responsibilities of all involved parties (fiduciaries and non-fiduciaries) are defined, documented, and acknowledged.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§3(38)(c); §402(a)(1); §402(b)(2) and (3); §403(a)(2); §404(a)(1)(B); §405(c)(1)

Case Law
Marshall v. Glass/Metal Association and Glaziers and Glassworkers Pension Plan, 507 F. Supp. 378 2 E.B.C. 1006 (D.Hawaii 1980); *Katsaros v. Cody,* 744 F.2d 270, 5 E.B.C. 1777 (2d Cir. 1984), *cert. denied, Cody v. Donovan,* 469 U.S. 1072, 105 S. Ct. 565, 83 L.Ed. 2d 506 (1984); *Marshall v. Snyder,* 1 E.B.C. 1878 (E.D.N.Y. 1979); *Donovan v. Mazzola,* 716 F.2d 1226, 4 E.B.C. 1865 (9th Cir. 1983), *cert. denied,* 464 U.S. 1040, 104 S. Ct. 704, L.Ed.2d 169 (1984); *Fink v. National Savings and Trust Company,* 772 F. 2d 951, 6 E.B.C. 2269 (D.C. Cir. 1985)

Other
Joint Committee on Taxation, *Overview of the Enforcement and Administration of the Employee Retirement and Income Security Act of 1974* (JCX-16-90, June 6, 1990)

Uniform Prudent Investor Act [UPIA]

§1(a); §2(a); §2(d); §9(a)(1) and (2)

Other
Restatement of Trusts 3d: Prudent Investor Rule §171 (1992)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §3(c)

Management of Public Employee Retirement Systems Act [MPERS]

§6(a) and (b); §7; §8(b)

Other
National Labor Relations Board v. Amax Coal Co., 453 U.S. 322, 101 S. Ct. 2789, 69 L.Ed. 2d 672 (1981)

Practice S-1.3

Fiduciaries and parties in interest are not involved in self-dealing.

The fundamental duty of the Investment Steward is to manage investment decisions for the exclusive benefit of another party (for example the retirement plan participant or the trust beneficiary). In addition, the Steward has a responsibility to employ an objective independent due diligence process at all times. If a participant or beneficiary is harmed by a decision not conducted at arms length, then a breach is likely to have occurred.

If a Steward even suspects he or she may have a conflict of interest—they probably do. The best advice is to end the relationship, or avoid it in the first place.

The Investment Steward should always be asking: Who benefits most from an investment decision? If the answer is any party other than the participant or the beneficiary, then the Steward is likely to be committing a fiduciary breach.

The Investment Steward should have defined policies and procedures to manage potential conflicts of interests. Special concerns are raised and additional scrutiny may be required when:

- An Investment Manager or Investment Advisor is associated with a custodian, broker-dealer, and/or shareholder services firm.
- An Investment Manager is acting as a subadvisor to a separately managed account (wrap fee account) and is required to direct trades to a particular broker-dealer.
- An Investment Manager accepts an unusually large number of directed brokerage and commission recapture mandates.
- An Investment Steward uses the assets of a public retirement plan to invest in local high-risk business ventures.

Examples of possible breaches:

- If a friend, business associate, and/or relative stands to benefit at the expense of a participant or beneficiary.
- An Investment Steward uses the assets of a private trust to provide unsecured loans to related parties and/or entities of the trustee.
- An Investment Steward hires an Investment Manager for a reason other than qualified merit.
- An Investment Manager uses “soft dollars” for any purpose other than the purchase of investment research.
- An Investment Steward uses a company retirement plan as collateral for a line of credit.
- An Investment Steward buys artwork and/or other collectibles with retirement plan assets, and puts the collectibles on display.

CRITERIA

1.3.1 Policies and procedures for overseeing and managing potential conflicts of interests are defined.

1.3.2 All fiduciaries annually acknowledge the organization’s ethics policies and agree to disclose any potential conflicts of interest.

Practice S-1.3

Fiduciaries and parties in interest are not involved in self-dealing.

Substantiation

Internal Revenue Code of 1986, as amended [IRC]

§4975

Employee Retirement Income Security Act of 1974 [ERISA]

§3(14)(A) and (B); §404(a)(1)(A); §406(a) and (b)

Case Law
Whitfield v. Tomasso, 682 F. Supp. 1287, 9 E.B.C. 2438 (E.D.N.Y 1988)

Other
DOL Advisory Council on Employee Welfare and Benefit Plans Report of the Working Group on Soft Dollars and Commission Recapture November 13, 1997

Uniform Prudent Investor Act [UPIA]

§2; §5

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

Prefacatory Note

Management of Public Employee Retirement Systems Act [MPERS]

§7(1) and (2); §17(c)(12) and (13)

Other

Forbes, "Pay for Play," Sept 4, 2000; *Plan Sponsor,* "Fiduciary Fundamentals" May 5, 2000; *Fortune,* "The Seamy Side of Pension Funds," Aug 12, 2002

Practice S-1.4

Service agreements and contracts are in writing, and do not contain provisions that conflict with fiduciary standards of care.

An Investment Steward is required to prudently manage investment decisions, and should seek assistance from outside professionals such as Investment Advisors and Investment Managers if the Steward lacks the requisite knowledge (assuming trust documents permit the delegation of investment responsibilities).

The Steward should take reasonable steps to protect the portfolio from losses, and to avoid misunderstandings when hiring such professionals. Therefore, Stewards should reduce any agreement of substance to writing in order to define the scope of the parties' duties and responsibilities, to ensure that the portfolio is managed in accordance with the written documents that govern the investment strategy, and to confirm that the parties have a clear, mutual understanding of their roles and responsibilities.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§3(14)(B) and (38)(C); §3(38)(C); §402(c)(2); §403(a)(2); §404(a)(1); §408(b)(2)

Case Law
Liss v. Smith, 991 F. Supp. 278 (S.D.N.Y. 1998); *Whitfield v. Tomasso*, 682 F. Supp. 1287, 9 E.B.C. 2438 (E.D.N.Y. 1988)

Other
Interpretive Bulletin 94-2, 29 C.F.R. §2509.94-2

Uniform Prudent Investor Act [UPIA]

§2(a); §5; §7; §9(a)(2)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §3(c); §5(a)

Management of Public Employee Retirement Systems Act [MPERS]

§5(a)(2); §6(b)(2); §7

Criteria

1.4.1 Service providers fully disclose, in writing, compensation arrangements and affiliations involved in each engagement, as well as their fiduciary status.

1.4.2 Agreements and contracts are periodically reviewed to ensure consistency with the needs of the managed assets.

1.4.3 Agreements and contracts are periodically reviewed by legal counsel.

1.4.4 Consideration is given to putting vendor contracts back out for bid every three years.

Practice S-1.5

Assets are within the jurisdiction of appropriate courts, and are protected from theft and embezzlement.

The Investment Steward has the responsibility to safeguard entrusted assets, which includes keeping the assets within the purview of the appropriate judicial system. This provides a regulatory agency the ability to seize the assets if, in its determination, it is in the best interest of the beneficiaries and/or participants.

Criteria

1.5.1 Assets are within the purview of the relevant judicial system.

1.5.2 ERISA fiduciaries have the required surety bond.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§ 404(b); § 412(a)

Regulations
29 C.F.R. §2550.404b-1

Case Law
Varity Corporation v. Howe, 516 U.S. 489, 116 S. Ct. 1065, 134 L.Ed.2d 130 (1996)

Other
H.R. Report No. 93-1280 (93rd Congress, 2d Session, August 12, 1974)

Uniform Prudent Investor Act [UPIA]

§2(a); §5; §9(d)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §5(d)

Management of Public Employee Retirement Systems Act [MPERS]

§2(21); §6(e); §7; §11(c) and Comments

Practice S-2.1

An investment time horizon has been identified.

One of the most important decisions the Steward has to manage is the determination of the portfolio's time horizon. Time horizon being that point-in-time when more money is flowing out of the portfolio than is coming in from contributions and/or from portfolio growth.

In order to determine a portfolio's time horizon, the Investment Steward should prepare a schedule of the portfolio's anticipated cash flows. One of the fundamental duties of every Steward is to ensure that there are sufficient liquid assets to pay bills and liabilities when they come due. Also, in the case of a foundation or endowment, to provide a specified level of support when it has been promised.

Based on the time horizon, the Steward then can determine which asset classes can be appropriately considered, and what the allocation should be between the selected asset classes. A short time horizon typically is implemented with fixed income and cash, while a long investment time horizon can be prudently implemented across most asset classes.

A cash flow schedule provides the Steward with information to more effectively rebalance a portfolio's asset allocation strategy. For example, if a particular asset class is outside the range of the investment policy statement's strategic limit, one could use the cash flow information to effectively rebalance the portfolio.

Criteria

2.1.1 Sources, timing, distribution, and uses of cash flows are documented.

2.1.2 In the case of a defined benefit retirement plan, the appropriate asset/liability study has been factored into the time horizon.

2.1.3 In the case of a defined contribution retirement plan, the investment options must address the range of participant time horizons.

2.1.4 In the case of a foundation or endowment, the receipt and disbursement of gifts and grants has been factored into the time horizon.

2.1.5 In the case of a retail investor, the appropriate needs-based analysis has been factored into the time horizon.

2.1.6 Sufficient liquid assets for contingency plans are maintained.

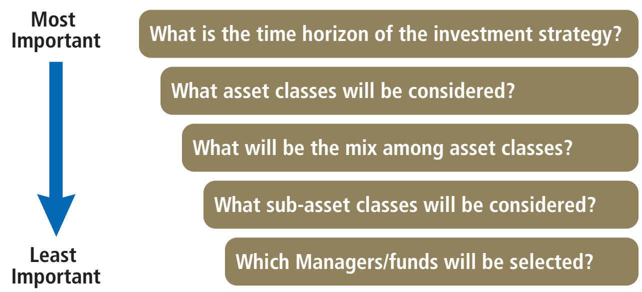
Practice S-2.1

An investment time horizon has been identified.

Suggested Procedures

One of the most important decisions the Investment Steward has to determine is the time horizon of the investment strategy. Based on the time horizon, the Investment Steward then can determine: (1) The asset classes to be considered; (2) The mix among the asset classes; (3) The sub-asset classes to be considered; and, finally, (4) The money managers or mutual funds to select.

The Hierarchy of Decisions



Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§404(a)(1)(B)

Regulations
29 C.F.R. §2550.404a-1(b)(1)(A); 29 C.F.R. §2550.404a-1(b)(2)(A)

Case Law
Metzler v. Graham, 112 F.3d 207, E.B.C. 2857 (5th Cir. 1997)

Other
Interpretive Bulletin 96-1, 29 C.F.R. §2509.96-1; H.R. Report No. 1280, 93d Congress, 2d Session (1974)

Uniform Prudent Investor Act [UPIA]

§2(a); §2(b)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3

Management of Public Employee Retirement Systems Act [MPERS]

§8; §10(b)

Practice S-2.2

A risk level has been identified.

The term "risk" has different connotations depending on the Investment Steward's frame of reference, circumstances, and objectives. Typically, the investment industry defines risk in terms of statistical measures such as standard deviation. However, these statistical measures may fail to adequately communicate the potential negative consequences an investment strategy can have on the Steward's ability to meet investment objectives.

An investment strategy can fail by being too conservative as well as too aggressive. A Steward could adopt a very safe investment strategy by keeping a portfolio in cash, but then see the portfolio's purchasing power whither under inflation. Or a Steward could implement a long-term growth strategy that overexposes a portfolio to equities, when a more conservative fixed-income strategy would have been sufficient to cover the identified goals and objectives.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§404(a)(1)(B)

Regulations
29 C.F.R. §2550.404a-1(b)(1)(A); 29 C.F.R. §2550.404a-1(b)(2)(B)(i-iii)

Case Law
Laborers National Pension Fund v. Northern Trust Quantitative Advisors, Inc., 173 F.3d 313, 23 E.B.C. 1001 (5th Cir.), *reh'g and reh'g en banc denied,* 184 F.3d 820 (5th Cir.), *cert. denied,* 528 U.S. 967, 120 S.Ct. 406, 145 L.Ed.2d 316 (1999); *Chase v. Pevear,* 383 Mass. 350, 419 N.E.2d 1358 (1981)

Uniform Prudent Investor Act [UPIA]

§2(b) and (c); §2 Comments

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(e)

Management of Public Employee Retirement Systems Act [MPERS]

§8(b); §8 Comments

CRITERIA

2.2.1 The level of risk the portfolio is exposed to is understood, and the quantitative and qualitative factors that were considered are documented.

2.2.2 A "worst case" scenario has been considered, and it has been determined that the portfolio has sufficient liquidity to meet short-term (less than five years) obligations.

Practice S-2.3

An expected, modeled return to meet investment objectives has been identified.

There is no requirement or expectation that the Investment Steward forecast future returns. Rather, the Steward is required to state the presumptions that are being used to model the probable outcomes of a given investment strategy.

In this context, the term "model" means to replicate: to determine the expected returns of an investment strategy given current and historical information.

The Steward should determine whether trust documents, spending policies, and/or actuarial reports (for defined benefit retirement plans) establish a minimum investment return expectation or requirement. In all cases, the Steward should determine the expected return a given investment strategy is designed to produce.

CRITERIA

2.3.1 The "expected" or "modeled" return is consistent with the portfolio's goals and objectives.

2.3.2 The "expected" or "modeled" return assumptions for each asset class are based on risk-premium assumptions, as opposed to recent short-term performance.

2.3.3 For Defined Benefit plans, the expected return values being used for actuarial calculations are reasonable.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§404(a)(1)(A) and (B)

Regulations
29 C.F.R. §2550.404a-1(b)(1)(A); 29 C.F.R. §2550.404a-1(b)(2)(A)

Case Law
Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591, 64 S.Ct. 281, 88 L.Ed. 333 (1944); *Communications Satellite Corporation v. Federal Communications Commission,* 611 F.2d 883 (D.C. Cir. 1977); *Tennessee Gas Pipeline Company v. Federal Energy Regulatory Commission,* 926 F.2d 1206 (D.C. Cir. 1991)

Uniform Prudent Investor Act [UPIA]

§2(b); §2(c)(1-8)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(e)

Management of Public Employee Retirement Systems Act [MPERS]

§8(a)(1)(A-F); §8(b)

Practice S-2.4

Selected asset classes are consistent with the risk, return, and time horizon.

The Investment Steward's role is to choose the appropriate combination of asset classes that optimize the identified risk and return objectives, and is consistent with the portfolio's time horizon.

The acronym "TREAT" helps to define the key inputs to an asset allocation strategy.

Asset Allocation Variables

T Time Horizon

R Risk Tolerance

E Expected Return

A Asset Class Preference

T Tax Status

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§404(a)(1)(B)

Regulations
29 C.F.R. §2550.404a-1; 29 C.F.R. §2550.404a-1(b)(1)(A); 29 C.F.R. §2550.404a-1(b)(2)(B)(i-iii)

Case Law
GIW Industries, Inc. v. Trevor, Stewart, Burton & Jacobsen, Inc., 895 F.2d 729 (11th Cir. 1990); *Leigh v. Engle*, 858 F.2d 361 (7th Cir. 1988)

Other
Interpretive Bulletin 96-1, 29 C.F.R. §2509.96-1

Uniform Prudent Investor Act [UPIA]

§2(b)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3

Management of Public Employee Retirement Systems Act [MPERS]

§8(b)

CRITERIA

2.4.1 Assets are appropriately diversified to conform to the specified time horizon and risk/return profile.

2.4.2 For participant directed plans, selected asset classes provide each participant the ability to diversify their portfolio appropriately given their time horizon and risk/return profile.

2.4.3 The methodology and tools used to establish appropriate portfolio diversification are effective and consistently applied.

Practice S-2.5

Selected asset classes are consistent with implementation and monitoring constraints.

There is no formula the Investment Steward can follow to determine the best number of asset classes—the appropriate number is determined by facts and circumstances. How many asset classes should be considered? Or in the case of participant-directed retirement plans, how many investment options should be offered?

The answer is dependent on certain variables:

- Size of the portfolio
- Investment expertise of the investment decision-makers
- Ability of the decision-makers to properly monitor the strategies and/or investment options
- Sensitivity to investment expenses—more asset classes and/or options may mean higher portfolio expenses. The additional costs of added diversification should be evaluated in light of the price the fiduciary pays for being less-diversified

The Steward's choice of asset classes and their subsequent weighting within the allocation strategy will have more impact on the long-term performance of the investment portfolio than any other decision.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§404(a)(1)(C)

Other
H.R. Report No. 1280, 93rd Congress, 2d Sess.304, reprinted in 1974 U.S. Code Cong. & Admin. News 5038 (1974)

Uniform Prudent Investor Act [UPIA]

§2(b)

Other
Restatement of Trusts 3d: Prudent Investor Rule §227, comment

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(e)

Management of Public Employee Retirement Systems Act [MPERS]

§8(a)(1); §8(a)(4); §10(2)

CRITERIA

2.5.1 Individuals responsible for implementing and monitoring investment decisions have the time, inclination, and knowledge to do so effectively.

2.5.2 The process and tools used to implement and monitor investments in the selected asset classes are effective.

2.5.3 The ability to access suitable investment products within all selected asset classes has been considered.

Practice S-2.6

There is an IPS which contains the detail to define, implement, and manage a specific investment strategy.

The preparation and maintenance of the IPS is one of the most critical functions of the Investment Steward. The IPS should be viewed as the business plan and the essential management tool for directing and communicating the activities of the portfolio. It is a formal, long-range, strategic plan that allows the Steward to coordinate the management of the investment program in a logical and consistent framework. All material investment facts, assumptions, and opinions should be included.

The IPS should have sufficient detail that a third party would be able to implement the investment strategy; be flexible enough that it can be implemented in a complex and dynamic financial environment; and yet not be so detailed it requires constant revisions and updates. Addendums should be used to identify information that will change on a more frequent basis such as the names of board members, accountants, attorneys, actuaries, and Investment Managers; and the capital markets assumptions used to develop the plan's asset allocation.

The Steward is required to manage investment decisions with a reasonable level of detail. By reducing that detail to writing (i.e., preparing a written IPS) the Steward can: (1) avoid unnecessary differences of opinion and the resulting conflicts; (2) minimize the possibility of missteps due to a lack of clear guidelines; (3) establish a reasoned basis for measuring their compliance; and (4) establish and communicate reasonable and clear expectations with participants, beneficiaries, and investors.

One of the challenges of writing an IPS is to create investment guidelines specific enough to clearly establish the parameters of the desired investment process, yet provide enough latitude so as not to create an oversight burden. This is particularly true when establishing the portfolio's asset allocation and rebalancing limits.

Rebalancing is required to maintain proper diversification, where the goal is to ensure that the portfolio does not stray far from its targeted levels of risk and return. An optimal portfolio only can be maintained by periodically rebalancing the portfolio to maintain the intended diversification.

A well-written IPS can serve to insulate the Investment Steward from the temptation to chase the latest top-performing asset class or "hottest" Investment Manager. By establishing specific asset allocation parameters and money manager (or mutual fund) selection criteria, it is much easier to determine whether a prospective manager fits into the approved investment program.

The Steward should investigate the qualities, characteristics, and merits of each Investment Manager and identify the role each plays in the implementation of the investment strategy. However, such an investigation and the related analysis cannot be conducted in a vacuum—it must be within the context of the needs of the investment strategy. Once the needs have been defined and the general strategies developed, specific Investment Managers should be chosen within the context of this strategy.

Criteria

2.6.1 The IPS defines the duties and responsibilities of all parties involved.

2.6.2 The IPS defines diversification and rebalancing guidelines consistent with specified risk, return, time horizon, and cash flow parameters.

2.6.3 The IPS defines due diligence criteria for selecting investment options.

2.6.4 The IPS defines monitoring criteria for investment options and service vendors.

2.6.5 The IPS defines procedures for controlling and accounting for investment expenses.

Practice S-2.6

There is an IPS which contains the detail to define, implement, and manage a specific investment strategy.

The fiduciary duty to monitor the performance of Investment Managers and other service providers is inherent in the obligations of Stewards to act prudently in carrying out their duties. Specific performance criteria and objectives should be identified for each Investment Manager.

The Steward must establish procedures for controlling and accounting for investment expenses in order to fulfill the obligation to manage investment decisions with the requisite level of care, skill, and prudence; and to fulfill the specific obligation of the fiduciary to pay only reasonable and necessary expenses.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§402(c)(3); §404(a); §406(a)(1)(C); §408(b)(2)

Regulations
29 C.F.R. §2550.404a-1(b)(1)(A); §2550.404a-1(b)(2)(i); 29 C.F.R. §2550.404a-1(b)(2)

Case Law
In re Unisys Savings Plan Litigation, 74 F.3d 420, 19 E.B.C. 2393 (3rd Cir.), *cert. denied,* 510 U.S. 810, 117 S.Ct. 56, 136 L.Ed.2d 19 (1996); *Morrissey v. Curran,* 567 F.2d 546, 1 E.B.C. 1659 (2nd Cir. 1977); *Harley v. Minnesota Mining and Manufacturing Company,* 42 F. Supp.2d 898 (D.Minn. 1999), aff'd, 284 F.3d 901 (8th Cir. 2002); *Whitfield v. Cohen,* 682 F. Supp. 188, 9 E.B.C. 1739 (S.D.N.Y. 1988); *Liss v. Smith,* 991 F.Supp. 278 (S.D.N.Y. 1988); *Leigh v. Engle,* 858 F.2d 361, 10 E.B.C. 1041 (7th Cir. 1988), *cert. denied,* 489 U.S. 1078, 109 S.Ct. 1528, 103 L.Ed.2d 833 (1989)

Other
Interpretive Bulletin 94-2, 29 C.F.R. §2509.94-2; Interpretive Bulletin 75-8, 29 C.F.R. §2509.75-8; Interpretive Bulletin 96-1, 29 C.F.R. §2509.96-1(e); H.R. Report No. 1280, 93rd Cong. 2d Sess. 304, reprinted in 1974 U.S. Code Cong. & Admin. News 5038 (1974)

Practice S-2.6

There is an IPS which contains the detail to define, implement, and manage a specific investment strategy.

Uniform Prudent Investor Act [UPIA]

§2(a-b); §2 Comments; §3 and Comments; §4; §7; §9(a)(1), (2) and (3)

Other
Restatement of Trusts 3d: Prudent Investor Rule §227(a); OCC Interpretive Letter No. 722 (March 12, 1996), citing the Restatement of Trusts 3d: Prudent Investor Rule §227, comment m at 58 (1992)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(c) §3(e) §5(a)

Management of Public Employee Retirement Systems Act [MPERS]

§6(b)(2) and (3); 7(2), (3) and (5); §7(5) and Comments; §8(a); §8 and Comments

Other
Restatement of Trusts 3d: Prudent Investor Rule §227, comment g

Practice S-2.7

The IPS defines appropriately structured, socially responsible investment (SRI) strategies (where applicable).

There is an increasing interest by Investment Stewards to incorporate social, ethical, moral, and/or religious criteria into their investment strategy. The desire is to align investment decisions with the core values of the organization, sponsor, donor, or grantor. There are three terms that are used interchangeably by the industry: mission-based investing, socially responsible investing (SRI); and environmental; social; and governance (ESG) considerations.

No matter how worthwhile or well-intended, fiduciary standards of care cannot be abrogated to accommodate the pursuit of an SRI strategy. As a general rule, any restriction on an investment program has the potential to reduce the portfolio's total return—itself a breach of fiduciary responsibility.

The key to successfully incorporating an SRI strategy is for the Investment Steward to demonstrate that prospective investment results are not negatively impacted. It has become a generally accepted practice to permit the inclusion of an SRI strategy as a secondary screen to a normal (unrestricted) investment process. However, if there are equally attractive investment options, then social factors may be considered.

For Stewards guided by the UPIA, there may be three notable exceptions to the above:

1. The trust documents establishing the private trust, foundation, or endowment prefers the use of SRI.
2. A donor directs the use of an SRI Strategy.
3. A reasonable person would deduce from the foundation's/endowment's mission that SRI would be adopted (e.g., it is reasonable to assume that the American Cancer Society would avoid investing in tobacco companies).

CRITERIA

2.7.1 The purpose and mission have been evaluated to determine whether socially responsible investing is appropriate and/or desirable.

2.7.2 If a socially responsible investment strategy is elected, it is appropriately structured, implemented, and monitored.

The IPS defines appropriately structured, socially responsible investment (SRI) strategies (where applicable).

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§403(c)(1); §404(a)(1)

Other
ERISA Opinion Letter 98-04A (May 28, 1998); Interpretive Bulletin 94-1, 29 C.F.R. §2509.94-1

Uniform Prudent Investor Act [UPIA]

§403(c)(1); §404(a)(1)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §3(e)

Management of Public Employee Retirement Systems Act [MPERS]

§7(1), (2) and (3); §8(a) (1) and (2); §8(a)(5); §8(b)

United Nations' Principles for Responsible Investment

In 2005, the United Nations Secretary-General convened an international group of institutional investors to reflect on the increasing relevance of ESG issues to investment practices. The outgrowth of the study was the release of the six "Principles for Responsible Investment":

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Practice S-3.1

The investment strategy is implemented in compliance with the required level of prudence.

CRITERIA

3.1.1 A due diligence procedure for selecting investment options exists.

3.1.2 The due diligence process is consistently applied.

In most cases, Stewards are not expressly required to use professional money managers. However, Investment Stewards will likely be held to the same expert standard of care, and their activities and conduct will be measured against those of investment professionals.*

The prudent Steward is strongly encouraged to delegate investment decisions to professionals when lacking the requisite expertise.

SUGGESTED FIELDS OF DUE DILIGENCE	Threshold Defined by fi360	Threshold Defined by Fiduciary	IPS (Practice 2.6)	Implement (Practice 3.1)	Monitor (Practice 4.1)
			Due diligence is reflected in procedures		
1. Regulatory oversight	Each investment option should be managed by: (a) a bank, (b) an insurance company, (c) a registered investment company (mutual fund), or (d) a registered investment adviser.				
2. Minimum track record	Each investment option should have at least three years of history so that performance statistics can be properly calculated.				
3. Stability of the organization	The same portfolio management team should be in place for at least two years.				
4. Assets in the product	Each investment option should have at least $75 million under management (for mutual funds - can include assets in related share classes).				
5. Holdings consistent with style	At least 80% of the underlying securities should be consistent with the broad asset class.				
6. Correlation to style or peer group	Each investment option should be highly correlated to the asset class being implemented.				
7. Expense ratios/fees	Fees should not be in the bottom quartile (most expensive) of the peer group.				
8. Performance relative to assumed risk	The investment option's risk - adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group median manager's risk-adjusted performance.				
9. Performance relative to a peer group	Each investment option's performance should be evaluated against the peer group's median manager return, for 1-, 3-, and 5-year cumulative periods.				
10. Other					
11. Other					

The investment strategy is implemented in compliance with the required level of prudence.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§402(c)(3); §403(a)(1) and (2); §404(a)(1)(B)

Regulations
29 C.F.R. §2550.404a-1(b)(1) and (2)

Case Law
772 F.2d 951 (D.C. Cir. 1985); *Katsaros v. Cody,* 744 F.2d 270,5 E.B.C. 1777 (2nd Cir.), *cert. denied,* 469 U.S. 1072, 105S.Ct. 565, 83 L.Ed.2d 506 (1984); *Donovan v. Mazzola,* 716 F.2d 1226 (9th Cir. 1983), *cert. denied,* 464 U.S. 1040, 104 S.Ct. 704, 79 L.Ed.2d 169 (1984); *United States v. MasonTenders Dist. Council of Greater New York,* 909 F. Supp. 882,19 E.B.C. 1467 (S.D.N.Y. 1995); *Trapani v. Consolidated Edison Employees' Mutual Aid Society,* 693 F. Supp. 1509 (S.D.N.Y. 1988)

Uniform Prudent Investor Act [UPIA]

§2(c); §2(f); §9(a)(1-3)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); 5(a)

Management of Public Employee Retirement Systems Act[MPERS]

§6(a); §6(b)(1); §6(b)(3); §7(3); §8(a)(1)

* *A professional who receives compensation as a trustee or holds themself out as possessing skills comparable to those of a professional trustee is held to a prudent expert standard of care. Although a court may not find a lay trustee financially liable in the same manner as a professional trustee, the court could find a cause for dismissing the trustee from his or her duties. In the case where the lay trustee held themself out as having appropriate skills, the court would likely hold even the lay trustee to an expert standard of care.*

Practice S-3.2

Applicable safe harbor provisions are followed (when elected).

CRITERIA

3.2.1 Investment Steward-directed investment decisions comply with applicable "safe harbor" requirements.

3.2.2 Participant- directed plans comply with applicable 404(c) "safe harbor" requirements.

3.2.3 Participant-directed plans comply with applicable fiduciary adviser "safe harbor" requirements (when participants are provided specific investment advice).

3.2.4 Participant-directed plans comply with requirements for "qualified default investment alternative" (when participants provide no investment direction).

There are three important concepts associated with each of the safe harbor procedures summarized in this Practice:

1. They are voluntary—the procedures are not compulsory for the Steward. However, a Steward choosing not to seek an available safe harbor bears the risk and consequences. Similarly, the Advisor who, in the role of consultant to the plan, does not advise a Steward of safe harbor opportunities could face co-liability for the Steward's breaches.

2. They may insulate the Steward (and possibly the Advisor/consultant) from liability associated with certain investment-related decisions and acts. The Steward should think of safe harbor procedures as a form of "insurance."

3. They require the Steward to demonstrate compliance with the applicable defined requirements. Applicable, in this case, meaning those provisions directly affecting the investment decision making process. (The question of "literal" versus "substantial" *compliance* will be answered by the courts.)

There are four distinct safe harbors available to Investment Fiduciaries:

1. The 404(a) Safe Harbor, or general safe harbor provisions related to delegation of investment decisions

2. The 404(c) Safe Harbor
(applicable only to ERISA Investment Stewards)

3. The Fiduciary Adviser Safe Harbor
(applicable only to ERISA Investment Stewards)

4. The Qualified Default Investment Alternative (QDIA) Safe Harbor

404(a) Delegation of Investment Decisions Safe Harbor Requirements

When investment decisions are delgated (regardless of being in a participant-directed or committee-directed plan); there are five generally recognized safe harbor requirements.

1. Investment decisions must be delegated to a "prudent expert(s)" (registered investment adviser [including mutual funds], bank, or insurance company).

2. The Investment Steward must demonstrate that the prudent expert(s) was selected by following a due diligence process.

3. The prudent expert(s) must be given discretion over the assets.

4. The prudent expert(s) must acknowledge their co-fiduciary status in writing (mutual funds are exempted from this requirement—the prospectus is deemed to serve as the fund's fiduciary acknowledgment).

Applicable safe harbor provisions are followed (when elected).

5. The Investment Steward must monitor the activities of the prudent expert(s) to ensure that the expert(s) is properly performing the agreed upon tasks using the agreed upon criteria.

[Note: UPIA, UPMIFA, and MPERS also include language that provides a certain degree of protection for fiduciaries who properly delegate investment responsibility.]

404(c) Safe Harbor Requirements

When investment decisions are participant-directed, as in the case of the typical 401(k) plan, there are nine requirements. These safe harbor requirements are more commonly referred to as 404(c) requirements. There are several proposed amendments to these procedures which have been introduced by the 2006 Pension Protection Act (PPA).

The first five requirements are identical to those of the committee-directed safe harbor, a point that should not be lost on plan fiduciaries. Many 401(k) Investment Stewards have mistakenly assumed that they were relieved of many (if not all) of their fiduciary responsibilities when they elected to allow participants to manage their own investment decisions. This simply is not the case.

Requirements 1-5 (see page 46), same as for committee-directed investment decisions

6. Plan participants must be notified in writing that the plan sponsor intends to constitute a 404(c) plan, and seek liability relief through these safe harbor procedures.
7. Participants must be offered at least three investment options with materially different risk/return profiles.
8. Participants must receive information and education on the different investment options.
9. Participants must be provided the opportunity to change their investment strategy/allocation with a frequency that is appropriate in light of market volatility.

Fiduciary Adviser Safe Harbor Requirements

The PPA defines a safe harbor for Investment Stewards who want to provide specific investment advice to 401(k) plan participants, and defines two terms that are related to the safe harbor requirements: "fiduciary adviser" and "eligible investment advice arrangement":

> A "fiduciary adviser" is a person who is providing specific investment advice to plan participants.
>
> An "eligible investment advice arrangement," is either a computer-driven advice model and/or fee neutral. (The fiduciary adviser's compensation is not impacted by which fund family, fund, share class, and/or asset mix is suggested.)

Applicable safe harbor provisions are followed (when elected).

The new fiduciary adviser safe harbor requirements are:

1. The Investment Steward must prudently select a qualified fiduciary adviser.
2. The fiduciary adviser must acknowledge to the Investment Steward and each participant fiduciary status in writing, disclose all conflicts of interests, and all forms of compensation.
3. The Investment Steward must determine that the fiduciary adviser's "eligible investment advice arrangement," including the associated fees and expenses, is appropriate for the plan's participants.
4. The Investment Steward must prudently monitor the fiduciary adviser, and ensure that both the procedural prudence of the fiduciary adviser, and the "eligible investment advice arrangement," are audited on an annual basis.

Qualified Default Investment Alternative Safe Harbor Requirements

A plan sponsor can avoid liability for participant investment decisions by offering a "qualified default investment alternative," defined as:

1. Age-based life-cycle or targeted retirement date funds or accounts;
2. Risk-based, balanced funds; or
3. An investment management service.

Participants must be provided:

1. Details of the "alternative."
2. "Notification" 30 days in advance of the first investment and each subsequent year, of the opportunity to transfer assets to any other investment alternative available without financial penalty.

Employer stock is permissible if:

1. The stock is held or acquired by a registered investment company or pooled investment vehicle that is independent of the employer.
2. The stock is acquired as a matching contribution from the employer and the stock is held at the direction of the particpant.

APPLICABLE SAFE HARBOR PROVISIONS ARE FOLLOWED (WHEN ELECTED).

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§402(c)(3); §404(a) and (c); §405(d)(1); §404(c)(4); §404(c)(5)

Regulations
29 C.F.R. §2550.404a-1; 29 C.F.R. §2550.404a-1(b)(1) and (2)

Other
Interpretive Bulletin 75-8, 29 C.F.R. §2509.75-8 (FR-17Q); Interpretive Bulletin 94-2, 29 C.F.R. §2509.94-2; DOL Miscellaneous Document, 4/13/98 – Study of 401(k) Plan Fees and Expenses; Fed. Reg., Vol. 44, p. 37255

Case Law
Tittle v. Enron Corp., 284 F.Supp.2d 511, 578 (S.D. Texas 2003)

Uniform Prudent Investor Act [UPIA]

§9(a); §9(c)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§5(a); 5(c)

Management of Public Employee Retirement Systems Act [MPERS]

§6(b); §6(d)

Practice S-3.3

Investment vehicles are appropriate for the portfolio size.

The primary focus of this Practice is the implementation of the investment strategy with appropriate investment vehicles.

It is important for the Steward to be familiar with the universe of available investment options (mutual funds, ETFs, and separate account managers to illustrate the more common vehicles), for no one implementation structure is right for all occasions.

There are numerous factors that should be considered in the selection of an investment vehicle, including:

- Ease of liquidity
- Minimum required investment
- The degree to which the investment is diversified
- Ease in meeting asset allocation and rebalancing guidelines
- Ability to perform the appropriate due diligence
- Flexibility in adjusting fees for growing or larger portfolios
- Ability to fund with assets-in-kind
- Built-in (phantom) tax issues
- Tax efficiency – ability to manage the tax consequences of low-basis and/or restricted stock
- Flexibility in year-end tax planning
- Degree of portfolio transparency
- Whether portfolio and performance information is audited
- Degree of regulatory oversight
- Ability to give investment direction to the portfolio manager
- Deductibility of management fees

CRITERIA

3.3.1 Decisions regarding passive and active investment strategies are documented and appropriately implemented.

3.3.2 Decisions regarding the use of separately managed and commingled accounts, such as mutual funds and unit trusts, are documented and appropriately implemented.

3.3.3 Regulated investment options are selected over unregulated options when comparable risk and return characteristics are projected.

3.3.4 Investment options that are covered by readily available data sources are selected over similar alternatives for which limited coverage is available.

3.3.5 In the case of wrap or sub-accounts, the portfolio's return is comparable to the returns received by institutional clients in the same investment strategy.

Investment vehicles are appropriate for the portfolio size.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§404(a)(1)(B); §404(a)(1)(C)

Regulations
29 C.F.R. §2550.404c-1(b)(3)(i)(C)

Case Law
Metzler v. Graham, 112 F.3d 207, 20 E.B.C. 2857 (5th Cir. 1997); *Marshall v. Glass/Metal Ass'n and Glaziers and Glassworkers Pension Plan,* 507 F. Supp. 378 (D.Hawaii 1980); *GIW Industries, Inc. v. Trevor, Stewart, Burton & Jacobsen, Inc.,* 10 E.B.C. 2290 (S.D.Ga. 1989); *aff'd,* 895 F.2d 729 (11th Cir. 1990); *Leigh v. Engle,* 858 F.2d 361, 10 E.B.C. 1041 (7th Cir. 1988), *cert. denied,* 489 U.S. 1078, 109 S.Ct. 1528, 103 L.Ed.2d 833 (1989)

Other
H.R. Report No. 1280, 93rd Congress, 2d Sess. (1974), reprinted in 1974 U.S. Code Cong. & Admin. News 5038 (1974)

Uniform Prudent Investor Act [UPIA]

§2(a); §3; §3 Comments

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(e)

Management of Public Employee Retirement Systems Act [MPERS]

§7(3); §8(a)(1)

Practice S-3.4

A due diligence process is followed in selecting service providers, including the custodian.

Custodial selection is a very important fiduciary function. Most Investment Stewards abdicate the decision to the Investment Advisors or Investment Managers. Yet, as with other prudent practices, there are a number of important decisions that need to be managed. The role of the custodian is to: (1) hold securities for safekeeping, (2) report on holdings and transactions, (3) collect interest and dividends, and, if required, (4) effect trades.

At the retail level, the custodian typically is a brokerage firm. Most securities are held in street name, with the assets commingled with those of the brokerage firm. To protect the assets, brokerage firms obtain adequate and appropriate insurance. Most institutional investors choose to use trust companies as custodians and pay an additional custody fee. The primary benefit is that the assets are held in a separate account, and are not commingled with other assets of the institution.

Criteria

3.4.1 A documented due diligence process is applied to select the custodian and all other service providers.

3.4.2 The custodian has appropriate and adequate insurance to cover the portfolio amount.

3.4.3 An appropriate sweep money market fund is selected.

3.4.4 An inquiry has been made as to whether the custodian can facilitate performance reporting and year-end tax statements.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§402(a)(1); §402(b)(2); §404(a)(1)(B)

Other
Interpretive Bulletin 96-1, 29 C.F.R. §2509.96-1; DOL Information Letter, Qualified Plan Services (7/28/98); DOL Information Letter, Service Employee's International Union (2/19/98)

Uniform Prudent Investor Act [UPIA]

§2(a); §7; §7 Comments; §9(a) (1), (2) and (3)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §3(c); §5(a)

Management of Public Employee Retirement Systems Act [MPERS]

§6(a) and (b)(1) and (2); §7

Step 4: Monitor

Practice S-4.1

Periodic reports compare investment performance against appropriate index, peer group, and IPS objectives.

The monitoring function extends beyond a strict examination of performance. By definition, monitoring occurs across all policy and procedural issues previously addressed in this handbook. The ongoing review, analysis, and monitoring of investment decision-makers and/or money managers is just as important as the due diligence implemented during the manager selection process.

In keeping with the duty of prudence, an Investment Steward appointing an Investment Manager must determine the frequency of the reviews necessary, taking into account such factors as: (1) prevailing general economic conditions, (2) the size of the portfolio, (3) the investment strategies employed, (4) the investment objectives sought, and (5) the volatility of the investments selected.

The Steward should establish performance objectives for each Investment Manager, and record the same in the IPS. Investment performance should be evaluated in terms of an appropriate market index, and relevant peer group.

The IPS also should describe the actions to be taken when an Investment Manager fails to meet established criteria. The Steward should acknowledge that fluctuating rates of return characterize the securities markets, and may cause variations in performance. The Steward should evaluate performance from a long-term perspective.

There often will be times when an Investment Manager is beginning to exhibit shortfalls in the defined performance objectives but, in the opinion of the Steward, does not warrant termination. In such situations, the Steward should establish in the IPS specific "watch list" procedures. The decision to retain or terminate a manager cannot be made by a formula. It is the Steward's confidence in the Investment Manager's ability to perform in the future that ultimately determines the retention of the Investment Manager.

Criteria

4.1.1 The performance of each investment option is periodically compared against an appropriate index, peer group, and due diligence procedures defined in the IPS.

4.1.2 The information that is provided in performance reports is evaluated and actions considered are documented.

4.1.3 "Watch list" procedures for underperforming Investment Managers are followed.

4.1.4 Rebalancing procedures are followed.

Practice S-4.1

Periodic reports compare investment performance against appropriate index, peer group, and IPS objectives.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§3(38); §402(c)(3)

Case Law

Leigh v. Engle, 727 F.2d 113 , 4 E.B.C. 2702(7th Cir. 1984); *Atwood v. Burlington Indus. Equity, Inc.,* 18 E.B.C. 2009 (M.D.N.C. 1994)

Other

Interpretive Bulletin 75-8, 29 C.F.R. §2509.75-8 (FR-17Q); Interpretive Bulletin 94-2, 29 C.F.R. §2509.94-2

Uniform Prudent Investor Act [UPIA]

§2(a); §9(a) (1 – 3)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §5(a)

Management of Public Employee Retirement Systems Act [MPERS]

§6(a) and (b)(1 – 3); §6 Comments; §6(d); §8(b)

Practice S-4.2

Periodic reviews are made of qualitative and/or organizational changes of investment decision-makers.

The Investment Steward has a continuing duty to exercise reasonable care, skill, and caution in monitoring the performance of Investment Managers and Investment Advisor.

The Steward's review of an Investment Manager must be based on more than recent investment performance results, for all Investment Managers will experience periods of poor performance. Stewards also should not be replacing their manager lineup simply because of the reported success of other managers.

In addition to the quantitative reviews of Investment Managers, periodic reviews of the qualitative performance and/or organizational changes to the Managers should be made at reasonable intervals. On a periodic basis (for example, quarterly) the Steward should review whether each Investment Manager continues to meet specified objectives. For example:

- The Investment Manager's adherence to the guidelines established by the IPS
- Material changes in the Manager's organization, investment philosophy, and/or personnel
- Any legal or regulatory agency proceedings that may affect the Manager

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§3(38); §402(c)(3); §404(a)(1)(B)

Regulations
29 C.F.R. §2550.408b-2(d); 29 C.F.R. §2550.408c-2

Other
Interpretive Bulletin 75-8, 29 C.F.R. §2509.75-8; Booklet: A Look at 401(k) Plan Fees, U.S. Department of Labor, Pension and Welfare Benefits Administration

Uniform Prudent Investor Act [UPIA]

§2(a); §7; §9(a)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §3(c); §5(a)

Management of Public Employee Retirement Systems Act [MPERS]

§6(a) and (b)(1 - 3); §7(5)

CRITERIA

4.2.1 Periodic evaluations of qualitative factors that may impact Investment Managers and Investment Advisors are performed.

4.2.2 Unsatisfactory news regarding an Investment Manager and/or Investment Advisor is documented and appropriately acted upon.

Practice S-4.3

Control procedures are in place to periodically review policies for best execution, "soft dollars," and proxy voting.

The Investment Steward has a responsibility to control and account for investment expenses—that the expenses are prudent and are applied in the best interests of the participant (in the case of a retirement plan), or beneficiary (in the case of a private trust, foundation, or endowment). The Steward, therefore, must monitor the following:

- *Best execution practices are followed in securities transactions.* The Steward has a responsibility to seek confirmation that each Investment Manager is seeking best execution in trading the portfolio's securities. In seeking best execution, Investment Managers are required to shop their trades with various brokerage firms, taking into consideration: (1) commission costs, (2) an analysis of the actual execution price of the security, and (3) the quality and reliability (timing) of the trade.
- *"Soft dollars" are expended only for brokerage and research for the benefit of the investment program, and the amount is reasonable in relation to the value of such services.* Soft dollars represent the excess in commission costs: the difference between what a brokerage firm charges for a trade versus the brokerage firm's actual costs. The failure of the Steward to monitor soft dollars may subject the investment program to expenditures which yield no benefit; itself a fiduciary breach.
- *Proxies are voted in a manner most likely to preserve or enhance the value of the subject stock.* The Steward can either retain the power to vote the proxies (and maintain documentation of such activity), or instruct an Investment Manager to vote on behalf of the Steward. If the power to vote proxies is retained, it is imperative that proxies are voted and documented in a timely manner.

CRITERIA

4.3.1 Control procedures are in place to periodically review policies for best execution.

4.3.2 Control procedures are in place to periodically review policies for "soft dollars."

4.3.3 Control procedures are in place to periodically review policies for proxy voting.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§3(38); §402(c)(3); §403(a)(1) and (2); §404(a)(1)(A) and (B)

Case Law
Herman v. NationsBank Trust Co., (Georgia), 126 F.3d 1354, 21 E.B.C. 2061 (11th Cir. 1997), *reh'g denied,* 135 F.3d 1409 (11th Cir.), ***cert. denied,*** 525 U.S. 816, 19S.Ct. 54, 142 L.Ed.2d 42 (1998)

Other
Interpretive Bulletin 75-8, 29 C.F.R. §2509.75-8 (FR-17Q); Interpretive Bulletin 94-2, 29 C.F.R. §2509.94-2(1); DOL Prohibited Transaction Exemption 75-1, Interim Exemption, 40 Fed. Reg. 5201 (Feb. 4, 1975); DOL Information Letter, Prescott Asset Management (1/17/92) (fn. 1); DOL Information Letter, Refco, Inc. (2/13/89); ERISA Technical Release 86-1 (May 22, 1986)

Uniform Prudent Investor Act [UPIA]

§2(a); §2(d); §7; §9(a)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §3(c); §5(a)

Management of Public Employee Retirement Systems Act [MPERS]

§6(2) and (3); §7(5); §8(a)(3)

Practice S-4.4

Fees for investment management are consistent with agreements and with all applicable laws.

The Investment Steward's responsibility in connection with the payment of fees is to determine: (1) whether the fees can be paid from portfolio assets and (2) whether the fees are reasonable in light of the services provided. Accordingly, the Steward should ensure all forms of compensation are reasonable for the services rendered.

Investment Advisor and Investment Manager fees vary widely depending on the asset class to be managed, the size of the account, and whether the funds are to be managed separately or placed into a commingled or mutual fund.

CRITERIA

4.4.1 A summary of all parties that have been compensated from portfolio assets has been documented, and the fees have been determined to be reasonable given the level of services rendered.

4.4.2 The fees paid to each party are periodically examined to determine whether the fee is consistent with service agreements.

4.4.3 The fees being paid for various services are periodically evaluated for reasonableness.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§3(14)(B); §404(a)(1)(A), (B) and (D); §406(a)

Regulations
29 C.F.R. §2550.408(b)(2)

Other
Booklet: A Look at 401(k) Plan Fees, U.S. Department of Labor, Pension and Welfare Benefits Administration; DOL Advisory Opinion Letter 2001-01A (1/18/01); DOL Advisory Opinion Letter (7/28/98) 1998 WL 1638072; DOL Advisory Opinion Letter 89-28A (9/25/89) 1989 WL 435076; Interpretive Bulletin 75-8, 29 C.F.R. §2509.75-8 (FR-17Q)

Uniform Prudent Investor Act [UPIA]

§2(a); §7 and Comments; §9 Comments

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §3(c); §5(a)

Management of Public Employee Retirement Systems Act [MPERS]

§7(2) and (5); §7 Comments

Practice S-4.5

"Finder's fees" or other forms of compensation that may have been paid for asset placement are appropriately applied, utilized, and documented.

The Investment Steward has a duty to account for all dollars spent on investment management services, whether those dollars are paid directly from the account or in the form of soft dollars and other fee-sharing arrangements. In addition, the Investment Steward has the responsibility to identify those parties that have been compensated from the fees, and to apply a reasonableness test to the amount of compensation received by any party.

In the case of an all-inclusive fee (sometimes referred to as a "bundled" or "wrap" fee) investment product, the Steward should investigate how the various service vendors associated with each component of the all-inclusive fee are compensated to ensure that no one vendor is receiving unreasonable compensation, and to compare the costs of the same services on an *à la carte* basis.

In the case of defined contribution plans, it is customary to offer investment options that carry fees that often are used to offset the plan's record-keeping and administrative costs. For a plan with few assets, such an arrangement may be beneficial for the participants.

However, as the assets grow, the Investment Steward should periodically determine whether it is more advantageous to pay for record-keeping and administrative costs on an *à la carte* basis and switch to mutual funds that have a lower expense ratio in order to reduce the overall expenses of the investment program.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§404(a)(1)(A) and (B);§406(a)(1); §406(b)(1); §406(b)(3)

Case Law
Brock v. Robbins, 830 F.2d 640, 8 E.B.C. 2489 (7th Cir. 1987)

Other
DOL Advisory Opinion Letter 97-15A; DOL Advisory Opinion Letter 97-16A (5/22/97)

Uniform Prudent Investor Act [UPIA]

§2(a); §7; §7 Comments

Case Law
Matter of Derek W. Bryant, 188 Misc. 2d 462, 729 NYS 2d 309 (6/21/01)

Other
McKinneys EPTL11-2.3(d)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(b); §3(c)

Management of Public Employee Retirement Systems Act [MPERS]

§6(b)(2) and (3); §7(2) and (5)

CRITERIA

4.5.1 All parties compensated from portfolio assets have been identified, along with the amount (or schedule) of their compensation.

4.5.2 Compensation paid from portfolio assets has been determined to be fair and reasonable for the services rendered.

Practice S-4.6

There is a process to periodically review the organization's effectiveness in meeting its fiduciary responsibilities.

Fiduciary duties are generally presented as distinct obligations substantiated through law and regulation. Many of the duties are accompanied by documentation and review obligations. As a practical matter, a comprehensive framework is needed to ensure that all applicable fiduciary practices are fully and effectively addressed on an ongoing basis. A planned approach to conduct periodic assessments provides such a framework.

Given that internal and external reviews and assessments are well-recognized tools to evaluate risks and ensure the effectiveness of policies and procedures, further weight is added to the need to establish a formal overall review process (as is provided by an assessment program).

Finally, it is important to recognize that the trend in law and regulation is towards greater formality in: (1) policies and procedures and (2) processes that ensure that the policies and procedures are effective.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§404(a)(1)(B)

Case Law
Chao v. Chacon, Case No. 1:04 CV 35000 (N.D. Ohio 2005); *Fink v. National Savings & Trust Co.,* 772 F.2d 951, 957 (D.C. Cir. 1985); *Liss v. Smith,* 991 F.Supp. 278, 299-300 (S.D.N.Y.,1998).

Other
Department of Labor Employee Benefits Security Administration, "Meeting Your Fiduciary Responsibilities" (May 2004); 29 C.F.R. 2509.75-8; 29 C.F.R. 2509.94-2.

Uniform Prudent Investor Act [UPIA]

§2(a); §2(d)

Uniform Management of Public Employee Retirement Systems Act [MPERS]

§8(b); §7

CRITERIA

4.6.1 Effectiveness of fiduciary Practices is periodically reviewed in order to foster continued improvement.

4.6.2 Assessments are conducted at planned intervals to determine whether (a) appropriate policies and procedures are in place to address all fiduciary obligations, (b) such policies and procedures are effectively implemented and maintained, and (c) the IPS is up-to-date.

4.6.3 Assessments are documented, conducted in a manner that ensures objectivity and impartiality, and results are reviewed for reasonableness.

Conclusion

The Practices identified in this handbook prescribe a timeless and flexible process for the successful management of investment decisions. Once familiar with the Practices, the Investment Steward will understand that no new investment product or technique is good or bad per se; nor will it be valuable simply because it worked for other fiduciaries. Furthermore, the Practices will help the Steward understand which new investment strategies, products, and techniques fit into their priorities, and which do not.

The intelligent and prudent management of investment decisions requires the Investment Steward to maintain a rational, disciplined investment program. The mind-boggling array of investment choices coupled with market noise from stock markets around the world understandably can result in financial paralysis from information overload. Stewards clearly need a framework for managing investment decisions that allows them to consider developing investment trends, and to thoughtfully navigate the possibilities.

The Board of Directors for the Foundation for Fiduciary Studies

The Staff of Fiduciary360

The AICPA's Personal Financial Planning Executive Committee

Appendix A

Sample Fiduciary Acknowledgment Letter

(Date)

(Address of Fiduciary)

Subject: Appointment to Investment Committee

Dear (Fiduciary):

You are hereby appointed to serve as a member of the Investment Committee. As you will be serving as a fiduciary with specific duties and responsibilities which are outlined in the attached handbook [memo], please become familiar with the contents and inform me of any questions and/or concerns you may have regarding your role.

In order to be a successful member of the Investment Committee, you should note the following.

> It does not require extensive experience in securities analysis or portfolio management, but it does require a personal interest in understanding the basics of capital markets.
>
> It requires a sincere commitment to develop a consensus formulation of goals and objectives with your fellow committee members; the discipline to develop and follow long-term investment policies; the patience to evaluate events calmly in the context of long-term trends; and an understanding of personal and organizational strengths and weaknesses to determine when delegation and outsourcing is more appropriate.
>
> Most importantly, it requires the ability to get the right things done, otherwise known as effective management. A prudent investment process facilitates effective management by distinguishing important from unimportant tasks.

Please acknowledge receipt of this letter and your understanding of your fiduciary duties and responsibilities by signing and returning the attached Acceptance Letter to me.

Sincerely,

(Plan Sponsor, Trustee, or Settlor)

Enclosure: ***Prudent Practices for Investment Stewards*** **handbook (or comparable memo)**

Sample Fiduciary Acceptance Letter

Date:	(Date)
To:	(Plan Sponsor, Trustee, or Settlor)
From:	(Fiduciary)

Subject: Appointment to Investment Committee

I hereby accept my appointment to serve as a member of the Investment Committee. I understand the fiduciary duties and responsibilities associated with my appointment.

Sincerely,

(Fiduciary)

Appendix B

Sample Investment Committee Meeting Minutes

Date: ____________________ Time: _____________

____ Regularly scheduled ____ Special

Attendees (list): Was there a quorum (circle)? Yes/No

Matters Discussed:

Materials Reviewed:

Decisions voted upon:

Sample By-Laws and Operating Procedures for the Investment Committee

Section 1: Formation of the Investment Committee

1.1 Functions of the Committee

The Investment Committee (Committee) shall perform the functions of an investment fiduciary responsible for the prudent management of the Investment Portfolio (Portfolio). The Committee will comply with all applicable fiduciary, prudence, and due diligence requirements experienced investment professionals would utilize; and with all applicable laws, rules, and regulations that may impact the Portfolio. The Committee shall have the exclusive authority to establish, execute and interpret an investment policy statement for the Portfolio. The Committee shall be responsible for the selection and retention of professional advisors to the Portfolio, which may include, but not necessarily be limited to, Investment Managers, an Investment Advisor, custodians, attorneys, accountants, and clerical staff.

1.2 Definition of a Fiduciary

A fiduciary is defined as a person who has the legal and/or implied moral responsibility to manage the assets of another person. A fiduciary must act solely in the best interests of that person. The Committee is subject to certain duties and responsibilities, including, but not limited to:

1. Know the standards, laws, and trust provisions that impact the investment process of the Portfolio
2. Prudently diversify the Portfolio to a specific risk/return profile (Or in the case of a participant-directed retirement plan, to make sufficient asset classes available so that a participant can prudently diversify his or her portfolio)
3. Prepare, execute, and maintain an investment policy statement
4. Have investment decisions made by prudent experts
5. Control and account for all investment-related expenses
6. Monitor the activities of all investment-related service vendors
7. Avoid conflicts of interest and prohibited transactions

1.3 Establishment of Committee

The Committee shall consist of such number of individuals as are appointed by the Sponsor. Any member of the Committee may resign, and his or her successor, if any, shall be appointed by the Chairman. Each Committee member will acknowledge the acceptance of appointment to the Committee in writing. No Committee member shall have the authority to bind the Committee in any contract or endeavor without the expressed written authority of the majority of the Committee members.

1.4 Establishment of Officers

The Committee shall have an office of Chairman and a Secretary. The Chairman shall be responsible for the conduct of all the meetings of the Committee and shall have voting rights the same as any other Committee member. The Chairman shall perform such other duties as the Committee may assign, and shall be the designated Agent for service of legal process.

The Secretary shall be responsible for keeping minutes of the transactions of the Committee and shall be the official custodian of records of the Committee. The Secretary, together with the Chairman, shall execute all official contracts of the Committee. The Secretary shall compile Committee agendas. The Chairman and Secretary are authorized by the Committee to execute any instruments necessary for the Committee to conduct business.

Sample By-Laws and Operating Procedures for the Investment Committee

1.5 Disclosure and Conflict of Interest

Notwithstanding any provision of law, no Committee member shall vote or participate in a determination of any matter in which the Committee member shall receive a special private gain. Committee members have a duty of loyalty that precludes them from being influenced by motives other than the accomplishment of the purposes of the Portfolio. Committee members, in the performance of their duties, must conform and act pursuant to the documents and instruments establishing and governing the Portfolio.

Section II: Meetings

2.1 Attendance at Board Meetings

The Committee shall set its own schedule of meetings. Special meetings may be called by the Chairman or by a majority of the Committee members. The Committee shall meet at least once each quarter. Notices of meetings shall not be required if waived by all members of the Committee. In recognition of the importance of the work of the Committee, regular attendance at the Committee meetings is expected from all members. Any member who fails to attend two consecutive meetings of the Committee without an excuse acceptable to the other Committee members shall be deemed to have resigned from the Committee. A majority of the members of the Committee at the time in office shall constitute a quorum for the transaction of business. The action of the Committee shall be determined by the vote or other affirmative expression by the majority of its members in attendance where a quorum is present.

2.2 Agendas and Other Meeting Materials

An agenda shall be prepared for each regular and special meeting of the Committee. The agenda shall set forth those items upon which the Committee anticipates taking action or discussing. Each agenda item shall have attached backup material necessary for discussion or action by the Committee. A copy of the agenda and backup material shall be furnished to each Committee member prior to commencement of the meeting. Full and complete minutes detailing records of deliberations and decisions shall be maintained and held by the Secretary. The Secretary shall record all acts and determinations of the Committee, and all such records shall be preserved in the custody of the Secretary. Such record and documents shall be open at all times for inspection by Committee members or for the purpose of making copies by any person designated by the Sponsor.

2.3 Rules of Order

In recognition of the importance of accomplishing the objectives of the Committee in a most orderly fashion, the Committee may establish rules of order or bylaws for the conduct of its meetings.

2.4 Appearance before the Committee

All persons who are scheduled to make appearances before the Committee shall be scheduled through the Secretary, and the Committee may establish the time limits established for such meetings. Appearances before the Committee may be in person or through a representative. All communications with the Committee shall either be in writing to the Secretary, teleconference, or by personal appearance at a Committee meeting.

____

Chairman

This glossary was compiled from the following sources:

Eugene B. Burroughs, CFA, *Investment Terminology* (Revised Edition), International Foundation of Employee Benefit Plans, Inc., 1993.

John Downes and Jordan Elliot Goodman, *Dictionary of Finance and Investment Terms* (Third Edition), Barron's Educational Series, Inc., 1991.

John W. Guy, *How to Invest Someone Else's Money*, Irwin Professional Publishing, Burr Ridge, Illinois, 1994.

Donald B. Trone, William R. Allbright, and Philip R. Taylor, *The Management of Investment Decisions*, Irwin Professional Publishing, Burr Ridge, Illinois, 1995.

Donald B. Trone, William R. Allbright, and Philip R. Taylor, *Procedural Prudence for Fiduciaries*, self-published, 1997.

Alpha – This statistic measures a portfolio's return in excess of the market return adjusted for risk. It is a measure of the Manager's contribution to performance with reference to security selection. A positive alpha indicates that a portfolio was positively rewarded for the residual risk, which was taken for that level of market exposure.

Analyst – A person approved by CEFEX or fi360 to conduct an assessment for *Certification*.

Assessment – The process of determining whether a fiduciary conforms with defined *Practices* and *Criteria*.

Asset Allocation – The process of determining the optimal allocation of a fund's portfolio among broad asset classes.

Audit – (*verb*) The process of gathering, displaying, and verifying information and data that will be used to assess whether there is conformance with a *Standard*:

Basis Point – One hundredth of a percent (100 Basis Points = 1%).

Best Execution – Formally defined as the difference between the execution price (the price at which a security is actually bought or sold) and the "fair market price," which involves calculating opportunity costs by examining the security price immediately after the trade is placed. Best execution occurs when the trade involves no lost opportunity cost; for example, when there is no increase in the price of a security shortly after it is sold.

Cash Sweep Accounts – A money market fund into which all new contributions, stock dividend income, and bond interest income is placed ("swept") for a certain period of time. At regular intervals, or when rebalancing is necessary, this cash is invested in assets in line with the asset allocation stipulated in the IPS.

CFA Institute (formerly AIMR) Performance Presentation Standards – These standards, effective January 1, 1993, are designed to promote full disclosure and fair representation in the reporting of investment results in order to provide uniformity in comparing Manager results. These standards include ethical principles, and apply to all organizations serving investment management functions. Compliance is verified at two levels: Level 1 and Level 2. (Level 2 is a more comprehensive verification process).

Commingled Fund – An investment fund that is similar to a mutual fund in that investors purchase and redeem units that represent ownership in a pool of securities. Commingled funds usually are offered through a bank-administered plan allowing for broader and more efficient investing.

Commission Recapture – An agreement by which a plan Fiduciary earns credits based upon the amount of brokerage commissions paid. These credits can be used for services that will benefit the plan such as consulting services, custodian fees, or hardware and software expenses.

Correlation Coefficient – Correlation measures the degree to which two variables are associated. Correlation is a commonly used tool for constructing a well-diversified portfolio. Traditionally, equities and fixed-income asset returns have not moved closely together. The asset returns are not strongly correlated. A balanced fund with equities and fixed-income assets represents a diversified portfolio that attempts to take advantage of the low correlation between the two asset classes.

Criteria – The details of a defined *Practice* and serve as the basis for a Global Standard of Excellence.

Directed Brokerage – Circumstances in which a board of trustees or other fiduciary requests that the Investment Manager direct trades to a particular broker so that the commissions generated can be used for specific services \or resources. See **"Soft Dollars."**

Economically-Targeted Investment (ETI) – Investments where the goal is to target a certain economic activity, sector, or area in order to produce corollary benefits in addition to the main objective of earning a competitive risk-adjusted rate of return.

ERISA – The Employee Retirement Income Security Act is a 1974 U.S. law governing the operation of most private pension and benefit plans. The law eased pension eligibility rules, set up the Pension Benefit Guaranty Corporation, and established guidelines for the management of pension funds.

Fiduciary – From the Latin word *fiducia*, meaning "trust." Someone who stands in a special relation of trust, confidence, and/or legal responsibility. A fiduciary is held to a standard of conduct and trust above that of a stranger or of a casual business person due to the superior knowledge and/or training of the fiduciary.

Fiduciary Adviser – A term introduced under the 2006 Pension Protection Act; an Investment Advisor selected by an ERISA plan sponsor to provide specific investment advice to plan participants.

Fiduciary Excellence – Is a function of how well *Investment Stewards, Investment Advisors,* and *Investment Managers* follow defined fiduciary *Practices* and *Criteria.*

Investment Advisor – A professional fiduciary who is responsible for managing comprehensive and continuous investment decisions (including wealth managers, financial advisors, trust officers, financial consultants, investment consultants, and financial planners).

Investment Manager – A professionals who has discretion to select specific securities for separate accounts, mutual funds, commingled trusts, and unit trusts.

Investment Steward – A person who has the legal responsibility for managing investment decisions (trustees and investment committee members).

Liquidity Risk – The risk that there will be insufficient cash to meet the fund's disbursement and expense requirements.

Money Markets – Financial markets in which financial assets with a maturity of less than one year are traded. Money market funds also refer to open-end mutual funds that invest in low-risk, highly liquid, short-term financial instruments and whose net asset value is kept stable at $1 per share. The average portfolio maturity is 30 to 60 days.

Practice – (*noun*) The details of a prudent process.

Proxy Voting – A written authorization given by a shareholder to someone else to vote his or her shares at a stockholders annual or special meeting called to elect directors or for some other corporate purpose.

Rater – A person approved by CEFEX to conduct a *Rating*.

Rating – The process of determining whether a fiduciary exceeds, and to what degree it exceeds, a *Standard*.

Real Estate Investment Trust (REIT) – An investment fund whose objective is to hold real estate-related assets; either through mortgages, construction and development loans, or equity interests.

Risk-Adjusted Return – The return on an asset, or portfolio, modified to explicitly account for the risk of the asset or portfolio.

Risk-Free Rate of Return – The return on 90-day U.S. Treasury Bills. This is used as a proxy for no risk due to its zero default risk issuance, minimal "interest rate" risk and high marketability. The term is really a misnomer since nothing is free of risk. It is utilized since certain economic models require a "risk-free" point of departure. See **Sharpe Ratio**.

R-squared (R^2 or R2) – Formally called the coefficient of determination, this measures the overall strength or "explanatory power" of a statistical relationship. In general, a higher R2 means a stronger statistical relationship between the variables that have been estimated, and therefore more confidence in using the estimation for decision-making. Primarily used to determine the appropriateness of a given index in evaluating a Manager's performance.

Safe Harbor Rules – A series of guidelines which, when in full compliance, may limit a fiduciary's liabilities.

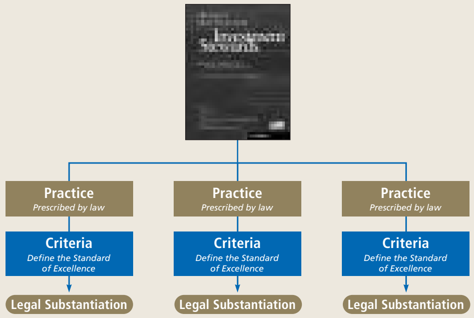
Sharpe Ratio – This statistic is a commonly used measure of risk-adjusted return. It is calculated by subtracting the Risk-Free Return (usually 3-Month U.S. Treasury Bill) from the portfolio return and dividing the resulting "excess return" by the portfolio's total risk level (standard deviation). The result is a measure of return gained per unit of total risk taken. The Sharpe Ratio can be used to compare the relative performance of Managers. If two managers have the same level of risk but different levels of excess return, the manager with the higher Sharpe Ratio would be preferable. The Sharpe Ratio is most helpful when comparing managers with both different returns and different levels of risk. In this case, the Sharpe Ratio provides a per-unit measure of the two managers that enables a comparison.

Socially-Targeted Investment or Socially Responsible Investment (SRI) – An investment that is undertaken based upon social, rather than purely financial, guidelines. See also **Economically-Targeted Investment.**

Soft Dollars – The portion of a commission's expense for trading a security which is in excess of the actual cost of executing the trade by the broker-dealer.

Standard of Excellence – The *Practices* and *Criteria* which detail a prudent process and the attributes of a trustworthy fiduciary.

Components of a Standard



Standard Deviation – A statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically is. The wider the typical range of returns, the higher the standard deviation of returns, and the higher the portfolio risk. If returns were normally distributed (i.e., has a bell-shaped curve distribution) then approximately two-thirds of the returns would occur within plus or minus one standard deviation from the sample mean.

Strategic Asset Allocation – Rebalancing back to the normal mix at specified time intervals (quarterly) or when established tolerance bands are violated (±5%).

Tactical Asset Allocation – The "first cousin" to **Market Timing** because it uses certain "indicators" to make adjustments in the proportions of portfolio invested in three asset classes – stocks, bonds, and cash.

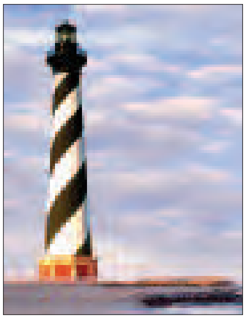
Trading Costs – Behind investment management fees, trading accounts for the second highest cost of plan administration. Trading costs are usually quoted in cents per share. As of the date of this publication, median institutional trading costs range from 5 to 7 cents per share.

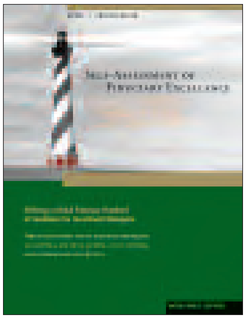
90-Day U.S. Treasury Bill – The 90-Day T-Bill provides a measure of riskless return. The rate of return is the average interest rate available in the beginning of each month for a T-Bill maturing in 90 days. In Europe, the London Inter-Bank Offered Rate (LIBOR) is also used as a risk-free benchmark.

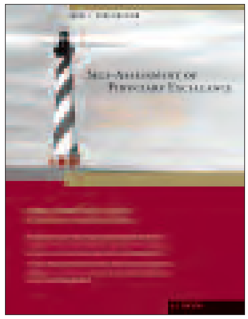
Variance – A statistical measure that indicates the spread of values within a set of outcomes around a calculated average. For example, the range of daily prices for a stock will have a variance over a time period that reflects the amount that the stock price varies from the average, or mean, price of the stock over the time period. Variance is useful as a risk statistic because it gives an indication of how much the value of the portfolio might fluctuate up or down from the average value over a given time.

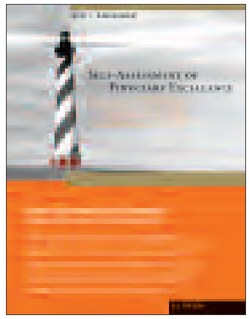
Assessment Levels

Level I: "SAFE"™
(Self-Assessment of Fiduciary Excellence)

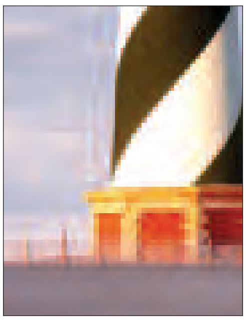






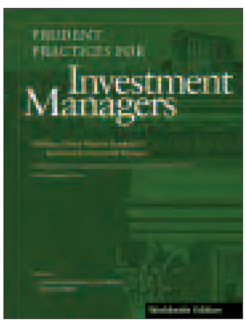


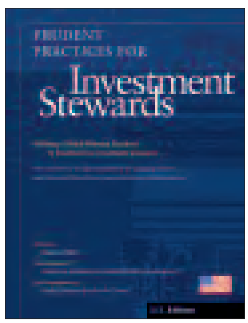
Level II: "CAFE"™
(Consultant's Assessment of Fiduciary Excellence)



Level III: CEFEX Certification

CEFEX
CENTRE FOR FIDUCIARY EXCELLENCE





The Periodic Table of Glob

Practice M-1.1

Senior management demonstrates expertise in their field, and there is a clear succession plan in place.

Practice M-1.2

There are clear lines of authority and accountability, and the mission, operations, and resources operate in a coherent manner.

Practice M-1.3

The organization has the capacity to service its client base.

Practice M-1.4

Administrative operations are structured to provide accurate and timely support services and are conducted in an independent manner.

Practice SA-1.1

Investments are managed in accordance with applicable laws, trust documents, and written investment policy statements (IPS).

Practice SA-1.2

The roles and responsibiliti
involved parties (fiduciarie
non-fiduciaries) are defi
documented, and acknowl

Practice M-1.5

Information systems and technology are sufficient to support administration, trading, and risk management needs.

Practice M-1.6

The organization has developed programs to attract, retain, and motivate key employees.

Practice SA-1.3

Fiduciaries and parties in interest are not involved in self-dealing.

Practice SA-1.4

Service agreements and co
are in writing, and do not
provisions that conflict v
fiduciary standards of c

Practice M-1.7

There is a formal structure supporting effective compliance.

Practice SA-1.5

Assets are within the jurisdiction of courts, and are protected from theft and embezzlement.

1 ORGANIZ

Practice M-4.1

There is a defined process for the attribution and reporting of costs, performance, and risk.

Practice M-4.2

All aspects of the investment system are monitored and are consistent with assigned mandates.

Practice SA-4.1

Periodic reports compare investment performance against appropriate index, peer group, and IPS objectives.

4 MONITO

Practice M-4.3

Control procedures are in place to periodically review policies for best execution, "soft dollars," and proxy voting.

Practice M-4.4

There is a process to periodically review the organization's effectiveness in meeting its fiduciary responsibilities.

Practice SA-4.2

Periodic reviews are made of qualitative and/or organizational changes of investment decision-makers.

Practice SA-4.3

Control procedures are in p
periodically review policies
execution, "soft dollars,"
proxy voting.

Practice SA-4.4

Fees for investment management are consistent with agreements and with all applicable laws.

Practice SA-4.5

"Finder's fees" or other fo
compensation that may have
for asset placement are appr
applied, utilized, and docum

Practice SA-4.6

There is a process to perio
review the organizatio
effectiveness in meeting
fiduciary responsibiliti

Fiduciary Practices

Practice SA-2.1
An investment time horizon has been identified.

Practice SA-2.2
A risk level has been identified.

Practice M-2.1
The organization provides disclosures which demonstrate there are adequate resources to sustain operations.

Practice M-2.2
The organization has a defined business strategy which supports their competitive positioning.

Practice SA-2.3
An expected, modeled return to meet investment objectives has been identified.

Practice SA-2.4
Selected asset classes are consistent with the identified risk, return, and time horizon.

Practice M-2.3
There is an effective process for allocating and managing both internal and external resources and vendors.

Practice M-2.4
There are effective and appropriate external management controls.

Practice SA-2.5
Selected asset classes are consistent with implementation and monitoring constraints.

Practice SA-2.6
There is an IPS which contains the detail to define, implement, and manage a specific investment strategy.

Practice M-2.5
The organization has a defined process to control its flow of funds and asset variation.

Practice M-2.6
Remuneration of the company and compensation of key decision-makers is aligned with client interests.

2 FORMALIZE

Practice SA-2.7
The IPS defines appropriately structured, socially responsible investment (SRI) strategies (where applicable).

Practice M-2.7
The organization has responsible and ethical reporting, marketing, and sales practices.

Practice M-2.8
There is an effective risk-management process to evaluate both the organization's business and investment risk.

3 IMPLEMENT

Practice SA-3.1
The investment strategy is implemented in compliance with the required level of prudence.

Practice M-3.1
The asset management team operates in a sustainable, balanced, and cohesive manner.

Practice M-3.2
The investment system is defined, focused, and consistently adds value.

Practice SA-3.2
Applicable "safe harbor" provisions are followed (when elected).

Practice SA-3.3
Investment vehicles are appropriate for the portfolio size.

Practice M-3.3
The investment research process is defined, focused, and documented.

Practice M-3.4
The portfolio management process for each distinct strategy is clearly defined, focused, and documented.

Practice SA-3.4
A due diligence process is followed in selecting service providers, including the custodian.

Practice M-3.5
The trade execution process is defined, focused, and documented.

LEGEND:
Practices in gold that begin with an "SA" define a fiduciary standard of excellence for Investment Stewards and Investment Advisors.
Practices in blue that begin with an "M" define a fiduciary standard of excellence for Investment Managers.
"SA" Practices highlighted are best reviewed in conjunction with Investment Managers Practices.

Mission of Fiduciary360

To promote a culture of fiduciary responsibility and improve the decision-making process of investment fiduciaries.

"Society depends upon professionals to provide reliable fixed standards in situations where the facts are murky or the temptations too strong. Their principal contribution is an ability to bring sound judgment to bear on these situations. They represent the best a particular community is able to muster in response to new challenges."

Dr. Robert Kennedy

The fiduciary Practices described in this handbook are intended to serve as a working guide for investigating and distinguishing "right" from "wrong," and enable the investment fiduciary to enter into each decision-making situation fully armed with maxims that serve as illuminators – not directives. The Practices form the basis of an intelligible prudent investment process that bring fiduciary imperatives into practical application.

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Open Enrollment Non-Resident Recommendations

According to Minnesota Statue 124.03, Subdivision 2, "A Board may, by resolution, limit the enrollment for nonresident pupils in its schools or program according to this section to a number not less than the lessor of:

1) One percent of the total enrollment at each grade level in the district; or

2) The number of district's residents at that grade level enrolled in a non-resident district according to this section."

Recommended Revised 2010-2011 Guidelines for Resident Students who Move Out of the District (Effective 12-14-10):

- Students whose parent or guardian moves to another district would have the option to continue attending Wayzata Schools until the end of the school year.
- Students in Grades 11 or 12 whose parent or guardian move to another district would have the option to continue through graduation under Minnesota Statute 124D.08, Subdivision 3.

Recommended Open Enrollment Guidelines for 2011-2012:

For the school year 2011-2012 the following guidelines are recommended:

- At the high school, close any grade whose population exceeds 800 or the total enrollment of the building exceeds 3200.

- At the middle school level, close any grade that exceeds 800.

- At the elementary school level, close any grade where the district-wide enrollment exceeds 750. If a grade level is below a district-wide enrollment of 750, open enrollment may still be closed in any individual building if the total enrollment in that building is at or exceeds its capacity or has total enrollment of 750 or greater.

- At the kindergarten level, close if the total district-wide enrollment exceeds 700. If kindergarten enrollment is below a district-wide enrollment of 700, open enrollment may still be closed in any individual building if the total enrollment in that building is at or exceeds its capacity or has total enrollment of 750 or greater.

Recommended Guidelines for New Nonresident Students for 2011-2012:

- Limit kindergarten open enrollment to a district-wide total not to exceed 700 kindergarten students; as determined on February 15, 2011.
- Accept kindergarten siblings into an elementary building where an older sibling is concurrently attending.
- If applications for open enrollment exceed available spaces, selection will be made by lottery.
- Close open enrollment at grades 1-12.

Recommended Guidelines for Resident Students who Move Out of the District for 2011-2012:

Resident students, whose parent or guardian moves to another school district, would be subject to the following enrollment options:

- Move during the summer: Student would attend their new resident school district for summer school and/or the regular school year starting with the fall semester.
- Move during Semester One: Student would have the option to complete Semester One at Wayzata and would attend their new resident school district for the regular school year starting with the spring semester.
- Move during Semester Two: Student would have the option to complete the school year at Wayzata and would attend their new resident school district for summer school and/or the regular school year starting with the fall semester.

It will be the recommendation at the December 13 Regular Board Meeting to approve the revised 2010-2011 guidelines for resident students moving out of the district. Such students will be allowed to continue until the end of the school year and students in grades 11 or 12 will be allowed to graduate from Wayzata Public Schools. Further, approve the recommendation to close open enrollment for 2011-2012 in grades 1-12 and limit open enrollment in kindergarten; not to exceed a district wide total of 700 kindergarten students; as determined on February 15, 2011. In 2011-2012, students whose parent or guardian moves out of the district during the summer would attend their new resident school; students moving out during the school year would have the option to complete the remainder of the current semester in the Wayzata Schools.

SCHOOL BOARD COMPENSATION (CLC)
2010 - 2011

DISTRICT	CHAIR	VICE CHAIR	CLERK	TREASURER
273 Edina	$2,400.00/annual	$2,400.00/annual	$2,400.00/annual	$2,400.00/annual
*Mileage & Conf. Exp**	$200.00/mo.	$200.00/mo.	$200.00/mo.	$200.00/mo.
270 Hopkins	$5,987.72/annual	$4,953.34/annual	$4,953.34/annual**	$4,953.34/annual
*$50,000 Term Life Ins**	$441.56/mo.	$412.78/mo.	$412.78/mo.**	$412.78/mo.
	*$689.00/annual stipend**			
276 Minnetonka	$6,000.00/annual	$5,250.00/annual	$4,500.00/annual	$4,500.00/annual
$50.00/Std. Comm. Mtg.*	$375.00/mo.	$375.00/mo.	$375.00/mo.	$375.00/mo.
	*$1,500.00/annual stipend**	*$750.00/annual stipend**		
281 Robbinsdale	$6,900.00/annual	$5,700.00/annual	$6,000.00/annual	$5,700.00/annual
	$575.00/mo.	$475.00/mo.	$500.00/mo.	$475.00/mo.
284 Wayzata	$5,100.00/annual	$4,320.00/annual	$4,320.00/annual	$4,320.00/annual
*$50.00/per extra meeting**	$425.00/mo.	$360.00/mo.	$360.00/mo.	$360.00/mo.
*Mileage & Conf. Exp**				
AVG. (CLC) w/o Wayzata	**$397.89**	**$365.70**	**$371.95**	**$365.70**
AVG. (CLC) w/ Wayzata	**$403.31**	**$364.56**	**$369.56**	**$364.56**

Stipends are NOT included in AVG.

*****This amount is included in the average, otherwise it would throw the average off, but the position of Clerk at Hopkins is filled by their Business Se. Director of Business Services and he does NOT receive this salary over and above his district paid salary.***

WAYZATA PUBLIC SCHOOLS

Independent School District 284
Wayzata, Minnesota

BOARD OF EDUCATION

Regular Meeting - December 13, 2010 - 7:00 PM
Wayzata City Hall, 600 Rice Street, Wayzata

AGENDA

1. CALL TO ORDER/ROLL CALL
2. APPROVAL OF AGENDA AND CONSENT AGENDA ITEMS
   Consent Agenda items are considered to be routine in nature and will be enacted by one motion. There will be no separate discussion of these items unless a Board member or citizen so requests, in which event the item will be removed as a Consent Agenda item and addressed. Consent Agenda Items are as follows:
   A. Approval of Minutes
      1. Regular Meeting - November 9, 2010
   B. Finance and Business Recommendations
   C. Human Resource Recommendations
   D. OPEB Trust Investment Policy Statement
3. STUDENT CURRICULUM PRESENTATION
4. RECOGNITIONS
   A. Wayzata Public Schools 2010-2011 Retirees
   B. December Employee of the Month -
   C. Blue Ribbon School - Greenwood Elementary
   D. WHS Boys Cross Country Team State Championship
   E. National Merit Scholarship Semi-finalists - Esteemed Teacher Award Donations
5. REPORTS FROM ORGANIZATIONS
   This section of the agenda provides the opportunity for parent, teacher, and/or student associations/organizations to provide the School Board with reports/updates.
6. SUPERINTENDENT'S REPORTS AND RECOMMENDATIONS
   A. Superintendent
   B. Teaching and Learning
      1. Approval of Sunset Hill Elementary Site Plan Overview - K. Keffeler
   C. Finance and Business Services
      1. Monthly Financial Reports
      2. Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2010
      3. Truth in Taxation Presentation
      4. Certification of 2010 Payable 2011 Property Tax Levy
   D. Human Resource Services
7. OTHER BOARD ACTION
   A. School Board Member Compensation 2011
8. AUDIENCE OPPORTUNITY TO ADDRESS SCHOOL BOARD
   This section of the agenda provides an opportunity for those who have called and placed their names on the list and for members of the audience to address the School Board.
9. BOARD REPORTS
10. NEW BUSINESS
11. ADJOURN

Agenda Item 8

WAYZATA PUBLIC SCHOOLS

Independent School District 284
Wayzata, Minnesota

BOARD OF EDUCATION

Work Session – November 22, 2010

AGENDA SECTION: **8. ADJOURN**

ITEM:

COMMENTS BY: **Board Chair Peterson**

If there is no additional business before the School Board, the Chair will adjourn the meeting.