Fiduciary Advisor Advocates

Supporting advisors serving fiduciaries

10 Fiduciary Commandments

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Helping Advisors Build A Scalable Fiduciary Practice

FAA is a community of Fiduciary Advisors who are collaboratively pushing innovation in the area of Fiduciary standards, and making scalable, institutional-quality capabilities more accessible to clients of all sizes.

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10 Fiduciary Commandments

Fiduciary Standard	Why?	It's Not Ok to:

1 Understand and document intention of assets

Why?

- Documents stated objectives.
- Establishes an understanding of:
    - required investment return,
    - investment time horizon,
    - risk tolerance,
    - asset class preferences, and
    - regulatory and tax requirements.
- Allows the fiduciary and advisor to understand consequences to investors and sponsoring organization of not meeting investment objectives.
- Establishes a base line for which the advisor can provide appropriate prescriptive solutions and fulfills the most elementary standard of Advisor behavior – "Know your client."

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It's Not Ok to:

- Advise without a thorough understanding of the purpose of the investment pool.
- Fail to document.
- Assume long time horizon and high risk tolerance.
- Ignore or inadequately address statutory restrictions or specific requests such as social guidelines, restricted activities etc.
- Ignore or misunderstand tax considerations.

2 *Establish and maintain written Investment Policy Statement (IPS)*

Why?

- ***Documenting the process used to manage investment decisions is at the heart of sound fiduciary practices.***
- ***An IPS documents:***
    - ***investment guidelines,***
    - ***acceptable investments,***
    - ***exception rules, and***
- ***Delineates roles and responsibilities of professionals involved in overseeing assets,***
- ***Identifies named fiduciaries and establishes process for delegation of responsibilities, and***
- ***Avoids second guessing in times of market upheaval.***

It's Not Ok to:

- ***Blindly rely on a 'proposal generator' to document the unique characteristics of the client.***
- ***Provide the Investment Policy Statement 'short version' excluding important client specific considerations.***
- ***Invest assets without a formal investment policy statement which is agreed to by all parties.***
- ***Misalign IPS with spending requirements of the client.***
- ***Set it and forget it.***

3 *Establish prospective capital market assumptions*

Why?

- ***Establishes prospective capital market expectations over appropriate time horizon.***
- ***Establishes return, risk and correlation expectations which specifically address a key fiduciary responsibility of diversifying the assets to the needs of the beneficiary.***
- ***Process must adhere to academically sound, well vetted theory and practice overseen by competent and experienced professionals which supports a prudent expert standard.***
- ***Accepted expectations must be reviewed when major changes in capital markets occur or after a defined period (we suggest annually at a minimum).***

It's Not Ok to:

- ***Invest assets without formal capital market assumptions.***
- ***Rely on historical relationships to portend into the future.***
- ***Derive capital market assumptions without a rigorous, academically sound process.***
- ***Copy someone else's work without proper attribution and/or compensation.***

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4 **Establish strategic asset allocation based on sound principles and best practices**	• Identify specific risk/ reward expectations of potential asset allocation policies over short, medium and long term horizons. • Identify appropriate time horizon based on IPS. • Identify distribution of potential returns. • Ensure adequate diversification across acceptable asset classes. • Ensure asset allocation is within acceptable guidelines as set forth in the IPS.	• Not disclose and communicate expected return and risks to your client. • Develop asset allocation based on feel or intuition. • Misalign asset allocation framework with the time horizon or risk tolerance of the asset pool as set forth in the Investment Policy Statement. • Provide inadequate diversification across the investment spectrum. • Mix asset allocation and investment structure considerations.
5 ***Establish appropriate investment manager / mutual fund structure***	• ***Ensuring adequate diversification within asset classes via style, capitalization, geographic region, etc. is a basic fiduciary duty.***	• ***Improperly concentrate risk within narrow bands of investment style, size or geographic region.*** • ***Assume knowledge of a manager or fund without evaluating and analyzing characteristics via appropriate database/ analytic tools.*** • ***Concentrate risk with one investment firm.***
6 ***Employ rigorous investment research and well defined manager search and selection process***	• ***Document research process and nature and depth of analysis related to specific investment strategies used by client.*** • ***Attest research is independent and free of any conflicts- i.e.: strategies are selected based on objective criteria.*** • ***Evaluate and document quantitative and qualitative aspects of investment strategy.*** • ***Assess investment manager qualifications including number of investment personnel, qualifications, analytical tools used and organizational support.*** • ***Understand drivers of performance and reconcile how strategy has and is expected to perform in different market environments.***	• ***Rely solely on historical returns or risk measures.*** • ***Ignore qualitative aspects such as investment philosophy, investment personnel, firm dynamics etc.*** • ***Fail to document the research process and provide written assessments of all investment vehicles used.*** • ***Have inadequate resources such as thin or inexperienced staff.*** • ***Utilize investment strategies which provide any form of compensation to any entity involved in fund oversight. Transparency is paramount.*** • ***Make an allocation to an organization that is not responsive to inquiries and does not provide clear communications about any aspect of the funds under their advisement.***

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7 **Diligently evaluate implementation terms**	• • Document process used for implementation. • Ensure appropriate investment vehicles are employed. • Control implementation costs i.e.: trading. • Implementation adheres to guidelines set forth in IPS on an ex-ante (before the fact) basis.	• • Assume the custodian or brokerage firm will implement in the best interest of the client. • Utilize inappropriate share classes or investment strategies. • Fail to monitor implementation vis a vis the Investment Policy Statement. • To utilize an asset management platform such as managed account or unified managed account (UMA) which does not provide complete transparency or take an affirmative named fiduciary position.
8 ***Support, embrace, and maintain a client's entire governance, investment and risk control process***	• ***Documentation and maintenance of fiduciary process is designed to enhance results and minimize liability.*** • ***The failure to follow an established prudent process is a breach of fiduciary responsibility.***	• ***Blindly assume the guidelines set forth in the Investment Policy Statement are being followed.*** • ***Fail to provide an adequate audit path which demonstrates and documents risks are measured monitored and controlled.*** • ***Misunderstand total costs the asset pool incurs.***
9 ***Monitoring***	• ***Review investment policies and guidelines annually or as fund requirements or market conditions warrant.*** • ***Review and document investment returns, sources of return, causes for concern.*** • ***Provide quarterly audit of exceptions, restrictions and potential guideline violations.*** • ***Rebalance portfolio as warranted and in line with investment guidelines.*** • ***Monitor all investment managers and strategies in a rigorous and ongoing manner..***	• ***Calculate returns in a manner not consistent with GIPS (Global Investment Performance Standards).*** • ***Provide ad hoc monitoring reports, like only when performance is good.*** • ***Provide selective time periods for review.*** • ***Change investment managers or strategies due to short-term premonitions or performance.*** • ***Provide benchmark comparisons which are not included in the Investment Policy Statement.*** • ***Fail to rebalance portfolios to acceptable levels as set forth in the Investment Policy Statement.*** • ***Fail to consider, monitor and control costs when rebalancing.***
10 ***Disclosure***	• ***Disclose and document all fees paid by asset pool including custodial, embedded and explicit manage fees, advisor fees etc.*** • ***Document on a quarterly basis who, how and for what each entity is compensated.*** • ***Annual review of all fees, vendor and manager relationships.***	• ***Assume embedded mutual fund or ETF fees can be ignored.*** • ***Ignore new share classes which can reduce client costs.*** • ***Collect any fee (12b-1, finder fee, transaction fee) from any vendor without clear, understandable disclosure.*** • ***Assume the prospectus covers your disclosure requirement.***