

“A Primer for Investment Trustees” Overview

**Legacy and Budget Stabilization
Advisory Board
June 28, 2011**

Role of Advisory Board

- Determine appropriate direction for the investment program
- Empower experienced people to implement program
- Monitor and evaluate

But I Don't Have an Investment Background.....

- Investing is seldom black and white; a great deal of subjectivity is required
- History of good judgment
- Diverse backgrounds-avoid “group think”

Investment Policy

- Statement of Philosophy and Strategic Planning
- Why does fund exist?
- How does committee define success
- Tolerance for investment losses
- Performance evaluation

Fund's Mission

- Inherent conflict between:
 - Maximizing earnings, and
 - Avoiding losses
- Risk tolerance balances between two conflicting objectives
- Mission can evolve as fund matures

Investment Objectives

- Unambiguous and Measurable
- Specified in Advance
- Actionable and Attainable
- Reflective of Risk Tolerance
- Consistent with Mission

Risk Tolerance

- Experience returns, predict risk
- Benjamin Graham: “The essence of investment management entails the management of risk, not the management of returns”
- Returns are the outcome of a process

Asset Allocation

- Asset allocation is the KEY policy tool to manage risk
- Asset allocation has been shown to explain over 90% of portfolio returns