

Self-Assessment of Fiduciary Excellence

SAFETM

**Defining a Global Fiduciary Standard
of Excellence for Investment Managers**

**Organizations that manage separate
accounts, mutual funds, unit trusts,
and commingled trusts.**

Introduction

This SAFE™ (Self-Assessment of Fiduciary Excellence) is intended to assist: (1) Investment Managers in analyzing how well their company meets a defined fiduciary standard of excellence; and (2) Investment Stewards and Investment Advisors in analyzing whether an Investment Manager is deserving of a fiduciary mandate.

Each question is intended to be answered in the affirmative ("Yes"). A careful inquiry should be made into all "No" responses to determine whether:

1. There is an omission or shortfall in the Investment Manager's organization and/or procedures; and/or
2. The question is not applicable to the Investment Manager's practice.

This SAFE is intended to serve as a Level I Verification. A Level II Verification, known as a CAFE™ (Consultant's Assessment of Fiduciary Excellence), provides a more detailed analysis of the Investment Manager's practice. A Level III Verification, or "Certification," is the formal process of verifying that an Investment Manager meets global standards defined by the Centre for Fiduciary Excellence (Cefex). A Level IV Verification constitutes a "Rating" of the Investment Manager by Cefex, and is intended to measure the level of trustworthiness of the manager.

More information can be found in the series of fiduciary handbooks: *Prudent Investment Practices*, *Prudent Practices for Investment Stewards (U.S. Edition)*, *Prudent Practices for Investment Advisors (U.S. Edition)*, *Prudent Practices for Investment Stewards and Investment Advisors (Worldwide Edition)*, and *Prudent Practices for Investment Managers (Worldwide Edition)*.

For more information or to obtain copies of the handbooks go to www.cefex.ca or www.fi360.com.

To find an investment advisor in your area who is familiar with the fiduciary practices referenced in this SAFE, go to www.fi360.com and look for the AIF®/AIFA® designee search icon:



Center for
Fiduciary Studies



AIF®/AIFA®
designee search

1 Does senior management demonstrate expertise in their field?

C-Suite – CEO, COO, CFO
Portfolio management professionals

2 Is there depth of experienced management to mitigate key man risk?

3 Is there a clear succession plan in place for key decision-makers?

4 Is there a well-defined mission statement and business plan? Is it communicated to all levels of personnel?

5 Is there a focus, sense of balance, and coherence to the organization as a whole?

6 Are significant organizational changes reported to clients on a timely basis?

7 Is there a formal process for personnel reviews?

8 Are there effective and appropriate external management controls (such as a Board of Directors, Governance Board, or Advisory Council of external shareholders)?

9 Is external management comprised of knowledgeable, experienced, and independent individuals?

10 Does external management provide the organization with a system of checks and balances?

In the case of an organization that offers mutual funds or similar-type investment vehicles (Questions 11 and 12):

11 Is the external governance board or committee for mutual funds or similar investment vehicles comprised of knowledgeable, experienced, and independent individuals?

12 Does the external governance board or committee have sufficient authority to ensure that investment vehicles are managed within their guidelines? That risk management controls are followed?

13 Are administrative operations structured to provide accurate and timely support services?

14 Is there a policy outlining how remuneration aligns with investors' interests?

15 Do key decision-makers have a meaningful stake in the organization?

16 Are C-Suite professionals compensated on financial achievements based on client stability?

17 Are portfolio management professionals compensated on the performance of their portfolios based on a risk-return basis and on asset retention?

18 Is the working atmosphere conducive to attract, retain, and motivate key employees?

19 Does the organization have well-developed training and professional development programs?

20 Is there a strong team spirit and a defined corporate identity?

21 Is there a compliance policies and procedures manual?

22 Is there a designated Chief Compliance Officer (CCO) who is an experienced, senior-level executive?

23 Does the CCO have direct access to the CEO and external management?

24 Is there compliance training for all new employees and ongoing training to emphasize changes in both regulations and internal policies?

25 Are compliance breeches well-documented and reported to the Board? Are procedures in place to reduce the risk of future non-compliance?

26 Are there adequate financial resources to sustain operations?

27 Does the organization have a discernable competitive advantage?

28 Is there a defined business strategy which supports the competitive positioning?

- 29 Are the offices, workspace, files, and research library in good condition?
- 30 Is the selection of third-party service providers competitively evaluated?
- 31 Are internal and external service providers properly assessed?
- 32 Is there effective communication between front office and back office functions to ensure that the needs of both parties are met?
- 33 Are service professionals such as the organization's accountant, auditor, and attorney of commensurate quality?
- 34 Does the capacity exist to service the client base?
- 35 Is there a suitable distribution structure (physical locations and staff) to support each type of client?
- 36 Are clients provided with timely and appropriate communications?
- 37 Is there a defined process to control the flow of funds and asset variation?
- 38 Are systems in place to monitor and manage short-term investor cash movement?
- 39 Are hardware and software maintenance and development needs addressed with a well-documented technology plan?
- 40 Is there up-to-date technology supported by qualified staff?
- 41 Are backup procedures and a disaster recovery plan in place?
- 42 Does the technology staff attend regular training to ensure that they are current with changes in the industry?
- 43 Are there responsible and ethical reporting, marketing, and sales practices?
- 44 Are there documented guidelines for sales and marketing practices?
- 45 Is there a legal review of all marketing material?
- 46 Is there a clear and defined policy of remuneration of third-party representatives or fund distributors?
- 47 Are there procedures for evaluating new products and assessing targeted markets?
- 48 Is there a dedicated business risk management oversight committee that reviews the business needs of the organization?
- 49 Are there defined policies and procedures and designated senior staff for overseeing and managing conflicts of interest?
- 50 Is the credit and investment research adequately documented and subjected to review procedures?
- 51 Is there a dedicated investment risk management oversight committee that reviews the activities of the asset management groups?
- 52 Do all investment products have clear and defined risk management parameters that are reviewed by senior management on a regular basis?
- 53 Can the investment team demonstrate that there is a defined process which is consistently applied over time and market cycles?
- 54 Can the investment team demonstrate that there is a defined process which adds value?
- 55 Is there a documented research process and mechanism to capture and track recommendations given by research analysts?
- 56 Is there a formal evaluation process to assess recommendations given to the investment management team by research analysts?
- 57 Does the research team have access to appropriate databases? Are they supported by the latest technology?
- 58 Is there an investment committee to set strategy and boundary constraints on each investment product?

- 59 Is there a formal portfolio review process to ensure adherence to investment policies and mandates?
- 60 Is the portfolio management process for each distinct investment strategy clearly defined, focused, and documented?
- 61 Does the portfolio manager have adequate technical support to plan investment actions and monitor portfolio constraints?
- 62 Does the portfolio manager have a defined portfolio turnover strategy? Does it add value over time?
- 63 Is tactical asset allocation consistent with the stated investment strategy? Does it serve the long-term goals of the portfolio?
- 64 Are broker-dealer relationships closely monitored to verify they are providing value-added services?
- 65 Are broker-dealer dealings closely monitored to ensure an arms-length relationship and to minimize counter-party risk?
- 66 Are trading and trade execution procedures well-documented and tested on a regular basis?
- 67 Is the investment team actively monitoring trade execution? Can it show its performance impact?
- 68 Do trade execution systems provide timely and accurate trading?
- 69 Are securities priced in a timely, accurate, and independent manner?
- 70 Are securities lending procedures well-documented?
- 71 Are trade confirmations sent to clients for all trading activities (unless otherwise directed by the client)?
- 72 Are the traders involved in the strategic asset management process so that they can best understand how to add value to each investment strategy?
- 73 Is the organization calculating and verifying portfolio performance in compliance with the Global Investment Performance Standards (GIPS), as adopted by the CFA Institute?
- 74 Is the investment management team conducting performance attribution analysis? Does it manage every component which impacts investment risk and return?
- 75 Is there a system in place to capture and monitor required mandates and any changes to mandates, whether those changes come from clients, regulators, or internal sources?
- 76 Is there a defined process to ensure “best execution”?
- 77 Is there a defined process to monitor the generation and use of “soft dollars”? Is there a “soft dollar” log?
- 78 Are directed brokerage and commission recapture mandates appropriately accepted and monitored?
- 79 Is there a defined process for tracking, voting, and accounting for proxies?
- 80 Are reviews conducted at planned intervals to determine whether appropriate policies and procedures are in place to address fiduciary obligations? Are such policies and procedures effectively implemented and maintained?
- 81 Are fiduciary reviews conducted in a manner that ensures objectivity and impartiality?

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 The fiduciary is following applicable "Safe Harbor" provisions (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 There 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 green that begin with an "M" define a fiduciary standard of excellence for Investment Managers.

1 ORGANIZE

Practice M-1.1

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

Practice SA-1.1

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

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-1.2

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

Practice M-1.3

The organization has the capacity to service its client base.

Practice SA-1.3

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

Practice M-1.4

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

Practice SA-1.4

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

Practice M-1.5

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

Practice SA-1.5

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

Practice M-1.6

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

Practice M-1.7

There is a formal structure supporting effective compliance.

2 FORMALIZE

Practice M-2.1

The organization provides disclosures which demonstrate there are adequate resources to sustain operations.

Practice SA-2.1

An investment time horizon has been identified.

Practice M-2.2

The organization has a defined business strategy which supports their competitive positioning.

Practice SA-2.2

A risk level has been identified.

Practice M-2.3

There is an effective process for allocating and managing both internal and external resources and vendors.

Practice SA-2.3

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

Practice M-2.4

There are effective and appropriate external management controls.

Practice SA-2.4

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

Practice M-2.5

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

Practice SA-2.5

Selected asset classes are consistent with implementation and monitoring constraints.

Practice M-2.6

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

Practice SA-2.6

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

Practice M-2.7

The organization has responsible and ethical reporting, marketing, and sales practices.

Practice SA-2.7

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

Practice M-2.8

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

3 IMPLEMENT

Practice M-3.1

The asset management team operates in a sustainable, balanced, and cohesive manner.

Practice SA-3.1

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

Practice M-3.2

The investment system is defined, focused, and consistently adds value.

Practice SA-3.2

The fiduciary is following applicable "Safe Harbor" provisions (when elected).

Practice M-3.3

The investment research process is defined, focused, and documented.

Practice SA-3.3

Investment vehicles are appropriate for the portfolio size.

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.

4 MONITOR

Practice M-4.1

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

Practice SA-4.1

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

Practice M-4.2

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

Practice SA-4.2

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

Practice M-4.3

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

Practice SA-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-4.4

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-4.6

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

“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



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