



HOWARD COUNTY
MARYLAND

Investment Monitoring Policy

Howard County Retirement Plan

**Howard County Police & Fire Employees
Retirement Plan**

January 31, 2019



Background / Refresher

- ▶ **WHO?**
 - County management, plan trustees, and investment consultant.
- ▶ **WHAT?**
 - Initial due diligence, assessment of risk, monitoring, and reporting of the Plans' investments.
- ▶ **WHEN?**
 - Finalize policy effective January 2019.
- ▶ **WHY?**
 - Formally documents the County's accounting policies and procedures, related internal controls over investments, and documentation requirements, and addresses the requirements of GASB Statement No. 72, "Fair Value Measurement and Application."



Overview of Roles

	Investment Adviser	Plans Trustees	County Management
Initial Due Diligence	✓	✓	-
Risk Assessment	-	-	✓
Ongoing Monitoring	✓	✓	-
Financial Reporting	-	-	✓



Initial Due Diligence Procedures

- ▶ Performed prior to selecting a new fund manager or investment
- ▶ Investment Consultant:
 - Analysis of a fund manager's investment style
 - Assessment of the fund manager's operations, personnel, and controls via on-site front office reviews, wherever possible
 - Presents the top performers for interview by the designated sub-committee
- ▶ Plans' trustees:
 - Form a sub-committee to evaluate, interview and recommend a selection for the new fund manager to the Retirement Plan Committee
 - Document the results of their review in the meeting minutes and vote to make the selection final



Risk Assessment Procedures

- ▶ Performed by County management for all investments in portfolio, and is especially critical for alternative investments
- ▶ An investment matrix is created wherein each investment will be assigned a score based on the following criteria and then categorized into different risk categories (low, moderate and high risk):
 - Quality of management
 - Liquidity and complexity
 - Pricing/valuation methodology and reporting
 - Internal controls
 - Materiality
- ▶ **Total of 13 possible points:**
 - 4-7 points = high risk,
 - 8-10 points = moderate risk, and
 - 11-13 points = low risk investment

Ongoing Monitoring Procedures

- ▶ Nature and extent of procedures will vary depending on level of risk
- ▶ Includes:
 - Periodic interviews and onsite visits
 - Comparison to benchmark returns
 - Attendance at fund manager's annual investor conference (Plan trustees are strongly encouraged to attend too)



Financial Reporting Procedures

- ▶ County management annually reviews:
 - SOC 1 Type 2 reports (internal controls), if available
 - Valuations prepared by fund managers
 - Audited financial statements
- ▶ Categorize investments into levels in accordance with GASB 72:
 - Level 1 – “quoted market prices”
 - Level 2 – “observable inputs/prices”
 - Level 3 – “unobservable inputs”
 - Or NAV (Net Asset Value)

