

# **Fiduciary Considerations: Practices & Resources**

## **Seattle Divestment Forum, October 18 2013**

**Eric Smith**

**CERTIFIED FINANCIAL PLANNER®**  
**ACCREDITED INVESTMENT FIDUCIARY®**



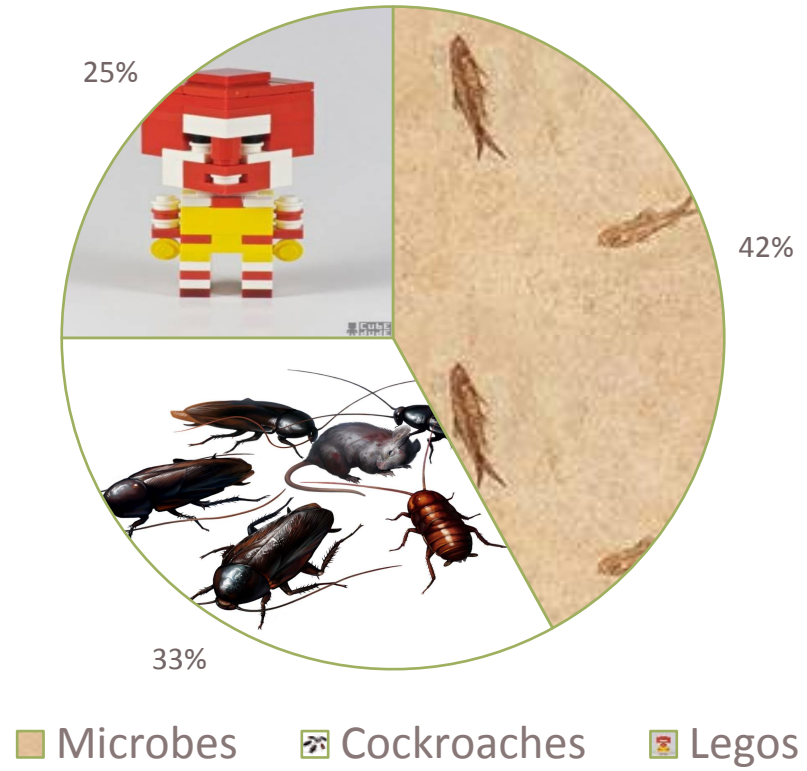
Sustainable, responsible, impactful investing since 1986

Securities and investment advisory services offered by Eric Smith through KMS Financial Services, Inc.



# After climate crisis

## World Population





# A required investment?





# Fiduciary leaders

THE F.B. HERON FOUNDATION



CALSTRS



FINANCIAL SERVICES  
FOR THE GREATER GOOD®

**fi·du·ci·ar·y**

**fə' dōōSHĕ, erĕ, -SHĕrĕ/**

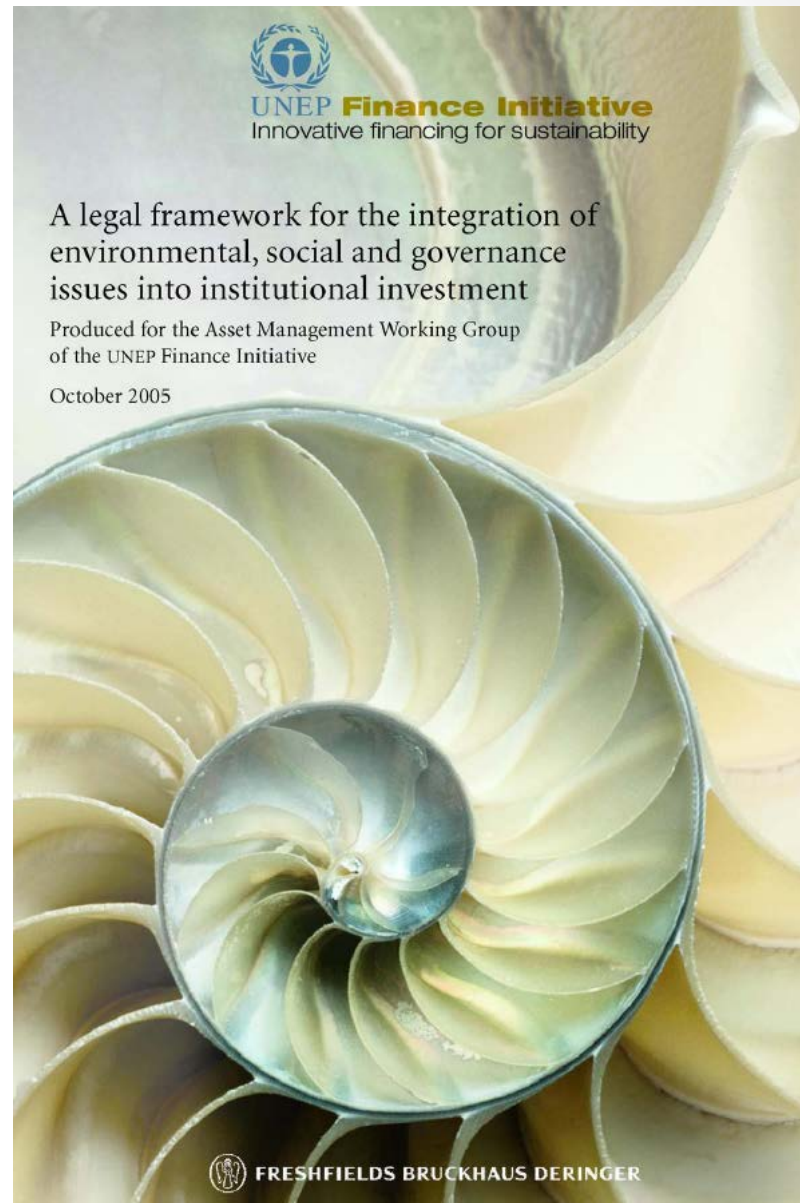
Late 16th cent. (in the sense 'something inspiring trust; credentials'): from Latin *fiduciarius*, from *fiducia* 'trust,' from *fidere* 'to trust.'

Involving trust, esp. with regard to the relationship between a trustee and a beneficiary.



# Freshfields Bruckhaus Deringer 2005

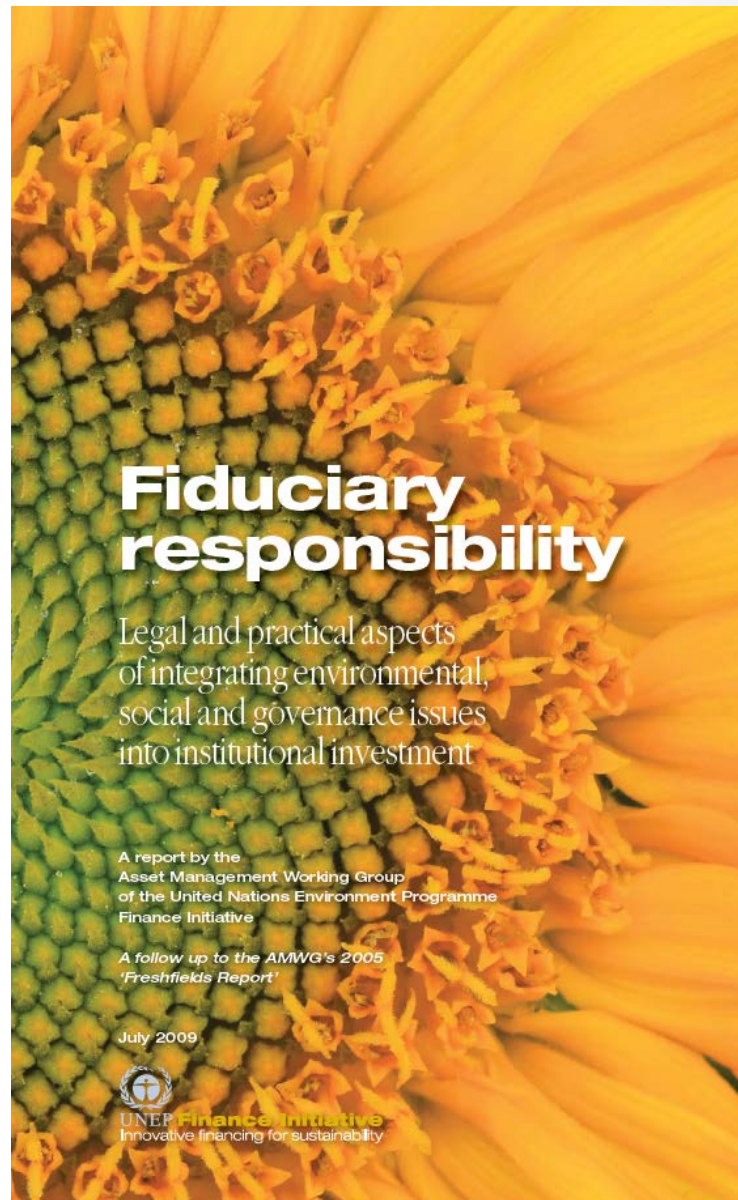
A legal framework for the integration of environmental, social and governance issues into institutional investment.  
(New York/Nairobi: UNEP FI, Oct. 2005, 154 pgs)





# UNEP Finance Initiative 2009

Fiduciary responsibility: Legal and practical aspects of integrating environmental, social and governance issues into institutional investment. A report by the Asset Management Working Group of the United Nations Environment Programme Finance Initiative. 92 pgs



# THE PERIODIC TABLE OF GLOBAL FIDUCIARY PRACTICES

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

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and manage a specific investment strategy.

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### **Practice SA-2.7**

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

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and ethical  
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### **Practice SA-3.1**

8  
**Pr**





# Tomorrow's investors are...

## Value-Seeking

Companies that understand and respond to changes taking place in the world offer superior long-term investment opportunities.

Example: Generation Asset Management

## Values-Based

Values are important, so they should be incorporated into investment decisions.

Example: General Board of Pension of the United Methodist Church

## Governance interested

Company management teams should be held accountable to stakeholders.

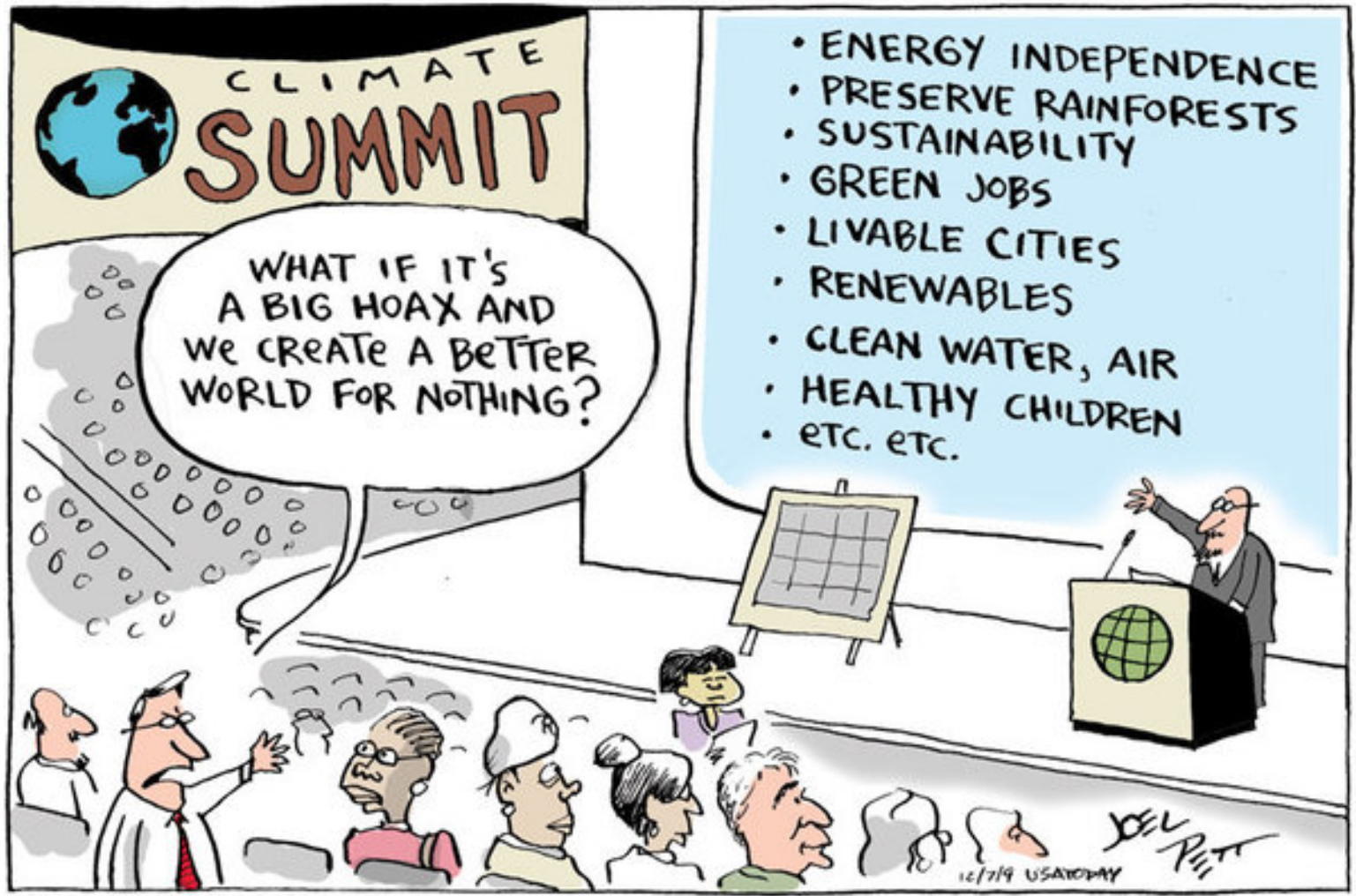
Example: CalPERS

## Change agents

Use market forces to create change in the world

Example: Skoll Foundation

Sources: Peter Kinder "Socially Responsible Investing: An evolving concept in a changing world"; Nelson Capital analysis



## History & Profile

- ✓ Pioneer mission-aligned investing—established in 1986.
- ✓ 40 years combined experience sustainable, responsible, impact investing space.
- ✓ Serving families, organizations.
- ✓ Credentialed team: AIF, CFP, Sustainable MBA. SEC & FINRA registered team.
- ✓ High advisor-to-client ratio ensures quality service delivery.

## Affiliations & Resources

- ❖ fi360
- ❖ Financial Planning Association
- ❖ First Affirmative Financial Network
- ❖ Green America
- ❖ Mission Investors Exchange
- ❖ Seattle Good Business Network
- ❖ Seattle Philanthropic Advisors Network
- ❖ US|SIF: Sustainable Investment Forum

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