



Legal Investments May Not Always Be Appropriate

Police & Firefighter Pension Funds

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Police and Firefighter pension fund trustees are continually faced with the responsibility of acting as a fiduciary in the management of their pension fund.

To assure that the funds are managed properly a part of the Trustees responsibility includes:

- Performance of due diligence in hiring of investment professionals
- Compliance with State Statute
- Monitoring actions of professionals to assure compliance with investment policy and state statute

Often times pension boards feel they have discharged their fiduciary responsibility by simply hiring a professional and allowing them to do the investing. This is not the case. Trustees continue to have fiduciary responsibility and must monitor the actions of their professionals.

Prior to hiring investment professionals pension board members should conduct a manager search following a due diligence process. A part of that process is the careful review of any written contracts. Recent examinations have found that some contracts allow professionals to act in all the following capacities.

- Custodian
- Discretionary Investment Manager
- Exclusive Broker-Dealer

Section 1-113.7 (E) prohibits serving in all of the above capacities.

No **broker-dealer** serving as **custodian** for any public pension as provided by this act shall be authorized to serve as an **investment advisor** for the same public pension fund as described in Section 1-101.4 of this Code, to the extent that the investment advisor acquires or disposes of any asset of that same public pension fund.

In the past few months the Department of Insurance has found several cases in which FDIC insured Certificates of Deposit were purchased containing unique features such as call dates, long maturities, and decreasing rates which should have prompted inquiry even though they are legal investments. Trustees need to be aware when an investment is not appropriate for their fund and should be raising certain questions. What is the maturity? What if the CD isn't called on the call date? What is the penalty or consequences if I cash this in prior to maturity? Do these maturities and the amount of purchases meet the guidelines as set forth in our investment policy?

As you can see fiduciary responsibility involves much more than just hiring a professional or purchasing a legal investment and thinking that your job is complete.

American Depository Receipts (ADR's)

The Department has received several calls regarding ADR's as an authorized investment.

Under current law, ADR's are not authorized investments.