Select Entity Type	Enter name and city	Date of Exam	
Charter #		Prepared By	

#6 – ASSET MANAGEMENT (Risk Focused)*

ASSIGNMENT OVERVIEW

Asset management includes the investment selection, retention, review process, and setting and communicating overall strategies for individual trust account. Since they hold themselves out as professionals, trust institutions are generally held to a high standard of prudence and expertise in the investment process. Therefore, it is essential that they have appropriate policies, procedures, and expertise to administer the types of assets held in accounts under their responsibility. Refer to the FDIC Trust Examination Manual for guidance.

INSTRUCTIONS

Examiners must follow the requirements in the Examiner Bulletin addressing Guidelines for Procedures and Work Paper Documentation for Trust Examinations.

All examiners performing these procedures must be listed above in the "Prepared By" section. Comments and findings for each step should be made in the comment box below each question. Reference to work paper documentation should also be included here. Documentation is to be sufficient to allow an audit trail of the examiner's thought process and all significant findings. Items to Consider within the core analysis are not required to be commented on unless there are significant issues. The intent is to assist the examiner in expanding their thought process and analysis of that particular area.

Information on the Summary of Findings page must tie back to the findings noted within the procedure. The SEIC/EIC will determine which information in the Summary of Findings will be included in the Report of Examination.

The EIC/AEIC should review this procedure when complete. Acknowledgement that this procedure has been reviewed by the EIC/AEIC will be indicated on the SCOPE FORM.

EXAMINERS ARE RESPONSIBLE FOR EXERCISING SOUND JUDGMENT AND UTILIZING REASONABLE INVESTIGATIVE AND ANALYTICAL SKILLS TO ARRIVE AT AN ACCURATE ASSESSMENT OF THE RISK PROFILE OF THIS SEGMENT OF THE INSTITUTION'S OPERATIONS. PERFORMING ALTERNATE PROCEDURES NOT LISTED WITH THESE GUIDELINES MAY BE NECESSARY TO COMPLETE THIS RISK ANALYSIS.

CORE ANALYSIS

#6 ASSET MANAGEMENT

1. Prior Criticism

1. Determine whether deficiencies noted in the last examination and most recent internal/external audit have been addressed and/or corrected by management. Detail how deficiencies were corrected. *Include a copy of audit exceptions and/or prior examination criticisms and management response in work papers or indicate the page number in the prior report of examination where the deficiencies are noted, or summarize exceptions/criticisms below, if applicable.*

Comment:

2 Management Oversight

2a. Review the Investment Policy and note any deficiencies in the policy or exceptions that have not been approved by the Board or its designee. Refer to **Appendix A** for additional guidance.

Comment:

2b. Determine the adequacy of Board/committee oversight of investment activities considering committee minutes if available and the adequacy of the reports submitted to the Board which may include transactions, composition, portfolio analysis, portfolio size and effects of appreciation/depreciation, market updates and outlooks, and policy and strategy compliance.

Comment:

2c. Review Call Reports. Verify proper categorization of fiduciary assets and accounts against the call report schedule RT (trust company) and RC-T (trust department). If significant errors are detected, instruct the entity to file amended reports. Schedule RT is filed with the Banking Department. Refer to Call Report Instructions as needed. Comment on any deficiencies

Comment:

2d. Determine if the institution utilizes investment policy statements (IPS) for their clients. If so, how often do they attempt to get an updated IPS signed by each client?

Comment:

2e. Does the institution have an effective system for ensuring compliance with IPS? (i.e. automated daily compliance monitoring software that outputs reports that are reviewed daily, etc.)

Comment:

#6 ASSET MANAGEMENT

3. Investment Selection

3a. Evaluate the process for maintenance of the securities list approved for purchase, retention, and/or sale. for marketable investment portfolio. Consider the following:

1. What committee or group approves recommendations for additions to, or deletions from, such list(s)?
2. Does this group appear to have appropriate authority and expertise?
3. How frequently is the list reviewed to assess the suitability of the investments listed?
4. Are all types of assets, including mutual funds, included on the approved list?

Comment:

3b. Determine if the investment research/analysis is sufficient for the types and character of trust investments, and if factors considered in evaluating the investment are sufficiently documented.

Consider the following:

1. Does management adequately identify the risks associated with each security prior to acquisition and periodically thereafter, consistent with the bank's policies?
2. Does trust staff adequately assess whether bonds held in trust accounts have adequate cash flows, risks, and potential returns to fit within the investment strategy specific to the trust account?
3. Is documentation sufficient for management to make an informed investment decision? Trust management should have documentation on hand that reflects both the receipt of raw financial data, as well as their own analysis of it.
4. Does management maintain both pre-purchase analysis, and post-purchase periodic monitoring as well as overall investment performance by account and by product (if applicable for common and collective trust funds)?

Comment:

3c. Determine if employees (including affiliates) and/or outside financial advisors performing investment research have sufficient expertise. Comment on who performs the investment research and their expertise.

Comment:

3d. Determine how management assesses the impact of asset concentrations upon an account and overall relationship's financial performance. Determine how management decides to take remedial measures, if deemed necessary.

A concentration in an account portfolio has been historically defined as one investment that is 10 percent or greater when compared to the entire account portfolio. Additional information on various types of concentrations can be found in the **Appendix B**.

As a reminder: It is important that Trust policies and procedures guard against unnecessary concentrations to the detriment of a beneficiary or group of beneficiaries like participants in a pension plan. The best policies and procedures have ranges established to guard against concentrations. Each trust institutions policies should be structured to best fit their needs and the needs of their clientele depending on the types of accounts that they administer and the types of assets that they generally maintain.

Comment:

4. Trust Portfolio Analysis

4a. Analyze the overall adequacy of investment in equities, debt securities, and preferred stocks, including the process for the selection, purchase, selling, and retention of these assets. Consider the following:

1. Is investment performance tracked against benchmarks to ensure investment selection and model construction is performing as anticipated? (account by account OR model by model. especially if investment selection is done in-house, but also to verify that an outside advisor should continue to be used.)
2. Are Asset Allocation Models sufficient and is the process for making changes/updating the models adequate?
3. Is management notified when an account becomes out-of-balance? Does the system automatically notify them, or do they wait for the annual investment review to find an out-of-balance condition? What is the process to bring the account back to the target weightings?

Refer to **Appendix C** for additional guidance.

Comment:

4b. Evaluate the trust portfolio for higher risk investments such as unique and hard to value assets: . Assess overall risk in the portfolio along with adequacy of policies pertaining to these specific asset types:

1. Options and futures,
2. Closely held business interests or limited partnerships,
3. Secured or unsecured loans (other than participant loans in EBs),
4. Tangible assets,
5. Real property and real estate notes,
6. Mineral interest and
7. Worthless/obsolete securities.

Refer to **Appendix D** for guidance.

Comment:

#6 ASSET MANAGEMENT

5. Pooled Investment Funds (Common Trust Funds and Collective Investment Funds)

Does the entity have Pooled Investment Funds? If No, skip to section 6.	**Select Response**

5a Determine whether the institution administers or uses common trust funds, collective investment funds, proprietary mutual funds, or other pooled investment vehicles. Comment on the types of funds administered or used.

Comment:

5b. If the institution has Collective Trust Funds (Collective Investment Funds (CIF) and Common Trust Funds (CTF)), analyze performance, compliance with **Regulation 9** for Section 584 common trust funds, and prudent practices for all other funds. Include a comment in the report.

- For companies/departments with significant numbers of collective investment funds refer to **Appendix E** for additional considerations.

Also refer to the FDIC Trust Examination Manual and the OCC Handbook on Collective Investment Funds for additional guidance.

Compliance with Regulation 9 Fiduciary Activities	**Select Response**

Comment:

5c. Determine if the institution complies with regulatory and client reporting guidelines. Consider the following:

- How is mandatory documentation provided to clients (annual CIF audits, ERISA 408(b)(2) fee disclosures, DOT, IPS, fund performance reports, fund fact sheets, DOL Form 5500 Schedule C, Form ADV Part 2betc.)
- Has the fund filed the DOL Form 5500, and was it filed on time?

Comment:

5d. Determine whether funds are governed by a Board approved written trust agreement, plan, declaration of trust, or group trust. (Note: A plan may cover multiple funds). Refer to **Appendix F** for additional administrative guidance.

Consider the following:

- Funds opened and closed since the last exam.
- For terminated plans: Management's plans and risk analysis for the termination.
- Planning and risk analysis for newly established and closed funds.

Comment:
5e. Determine if an annual audit of open and terminated funds is performed and provided to the Board. Indicate if an audit opinion was rendered. Verify that an annual financial report is prepared based on the audit. Refer to **Appendix F** for additional guidance.
Comment:
5f. Ensure that funds are valued at least once every three months for readily marketable assets, and once a year for not readily marketable assets as required by OCC regulation **12 CFR 9.18(b)(4)(i)**. Determine compliance with OCC regulation **12 CFR 9.18(b)(5)** regarding the general method of valuation on admission and withdrawal of accounts. *Indicate compliance below and comment on any noncompliance.*

Complies with 12 CFR 9.18(b)(4)(i) Frequency of Evaluation.	**Select Response**
Compliance with 12 CFR 9.18(b)(5) Admission and withdrawal of accounts	**Select Response**

Comment:
5g. Assess the institution's overall practices regarding the management of its short-term investment fund(s) (STIF) according to OCC regulation **12 CFR 9.18(b)(4)(iii).** Comment on compliance and any weaknesses. Refer to **Appendix E** for additional guidance. Consider the following: 1. A plan governing the administration of the fund. 2. The fund maintains a dollar-weighted average portfolio maturity of 60 days or less and a dollar-weighted average portfolio life maturity of 120 days or less. 3. Policies that address stress testing practices to assess the STIF's ability to maintain a stable net asset value (NAV) according to OCC regulation **12 CFR 9.18 (b)(4)(iii)(H)** 4. Monthly disclosures to participants according to OCC regulation **12 CFR 9.18(b)(4)(iii)(I)**. 5. Determine if procedures are in place detailing management action in the event the NAV falls below 0.995 or the liquidation of a STIF.

Compliance with 12 CFR 9.18(b)(4)(iii) Short-term Investment Funds (STIFs) Method of Valuation	**Select Response**

Comment:
5h. Determine if management adequately monitors and manages the performance of the funds and initiates actions to correct poor performance. Refer to **Appendix F** for additional guidance. Consider the following: 1. Use of appropriate benchmarks for performance measurement.   o Determine if benchmarks have been modified and comment on the reason for modification.

2. Funds are managed consistent with their stated investment objective.
3. Management information systems used for portfolio management, re-balancing, forecasting scenarios, compliance reports, concentrations, etc.
4. Oversight and management actions/decision process concerning defaulted investments, fund watchlists, underperforming funds and fund managers.
5. Reasonableness of fees/expenses and its impact to the fund value. ERISA 408(b)(2) requires full disclosure of fees to plan fiduciaries. Refer to the OCC regulation **12 CFR 9.18(b)(9)(10)** regarding management fees and expenses.
6. Liquidity needs are considered.
7. A watchlist system has been implemented that includes criteria and guidelines for placing funds and/or advisors on the watchlist, escalation processes, and remediation plans

Comment:

6. Annual Reviews

6a. Verify that annual reviews are performed on all managed accounts in compliance with the Statement of Principles.

Comment:

6b. Analyze and comment on the overall adequacy of the review including format and content. Determine if the review addresses issues such as concentrations of credit, unique or non-traditional investments, asset valuations, appropriateness of the stated objective, and compliance with the stated objective.

Comment:

7. Securities Lending

Engaged in Securities Lending? If No, skip this section and go to Final Analysis	**Select Response**

7. Determine if the trust company/department engages in securities lending. If so, address the following:

1. Are recordkeeping systems adequate to indicate that stated policy guidelines are being followed?
2. Are these activities reasonably correlated to the trust company's other activities and business needs?
3. Does management demonstrate adequate knowledge and expertise to sufficiently control the use of these activities?

Comment:

8. Final Analysis
8. Complete the **Summary of Findings**.

SUMMARY OF FINDINGS

#6 - ASSET MANAGEMENT
Describe all strengths evident from the evaluation.
Describe all weaknesses evident from evaluation, including violations of law/regulation/rules; noncompliance with Departmental policies/guidelines; internal policy deficiencies/ noncompliance; internal control weaknesses; MIS problems; and deficiencies in management supervision.
Determine why weaknesses exist and comment on management's response and plan of action. Identify personnel making the response.
SUMMARY RISK RATING ASSIGNED: **Select Rating**

Ratings: 1-Strong; 2-Satisfactory; 3-Less than satisfactory; 4-Deficient; 5-Critically deficient; NR-Not Rated

Ratings Definitions.xlsm

Provide copy of this page to EIC/AEIC. Receipt and review of this form by the EIC/AEIC will be evidenced by his/her initials in the appropriate column for this procedure on the SCOPE FORM.

Return to Core Analysis

APPENDIX A - Investment Policy

Investment Policy

Consider the following:

1. Has the policy been reviewed / revised by the board of directors within the last year?
2. Is the policy adequately communicated (through minutes, directives, or memorandum) to appropriate personnel?
3. Is the policy being adhered to?
4. Does the policy address the following as appropriate:
    - General investment standards;
    - Investment selection responsibility and criteria
    - Investment review responsibilities and frequency (as provided in the Statement of Principles of Trust (Department) Management);
        i. Requirement for an initial account review within a reasonable time of acceptance of a majority of the assets;
        ii. Requirement for an annual review thereafter;
    - Risk diversification guidelines and avoidance of concentrations relating to single issues, sectors, and/or geographic locations;
    - Quality of research materials and services, such as earnings reports and news bulletins;
    - Minimum quality ratings and determine investment grade using **Appendix G**;
    - Documentation requirements, particularly for unique assets such as notes or limited partnerships;
    - Valuation procedures;
    - Hedging, swaps, caps, repos, or other nontraditional investment activities, or the prohibition thereof, if applicable;
    - Personnel authorized to initiate transactions;
    - Guidelines for selecting and monitoring securities firms; and
    - Analytical data and/or other reports to be provided to the board/investment committee.

Return to Core Analysis – Q2a

APPENDIX B – Asset Concentrations

ASSET CONCENTRATIONS

It is important that Trust policies and procedures guard against unnecessary concentrations to the detriment of a beneficiary or group of beneficiaries like participants in a pension plan. The best policies and procedures have ranges established to guard against concentrations. Each trust institutions policies should be structured to best fit their needs and the needs of their clientele depending on the types of accounts that they administer and the types of assets that they generally maintain.

1. **Intentional concentration.** You may believe a particular investment or sector will outperform its peers or an index, so you make a conscious decision to invest more of your money in a given asset or asset class.
2. **Concentration due to asset performance.** Maybe one of your investments has performed very well relative to the rest of your portfolio. For instance, in a bull market, you may find your stock holdings now represent a significantly greater percentage of your portfolio than before since your stocks gained more value than your bond holdings.
3. **Company stock concentration.** Employees may be tempted to concentrate their retirement savings in the stock of their employer.
4. **Concentration due to correlated assets.** Investments within the same industry, geographic region or security type tend to be highly correlated, meaning that what happens to one investment is likely to happen to the others. For instance, you might own a variety of municipal bonds, but all of them are in the same state or region. Or you may have investments in individual technology companies but also own a technology fund and have technology stocks represented in an index fund you own.
5. **Concentration in illiquid investments.** Certain investments such as private placements, unlisted Direct Participation Programs and non-traded Real Estate Investment Trusts (REITS) may be difficult to sell quickly. Other investments, including variable annuities, may impose a surrender charge if you try to sell before a certain period of time. Should you need quick access to cash and are heavily invested in illiquid securities, you may not be able to tap this money in a timely or cost-efficient manner.

Return to Core Analysis – Q3d

APPENDIX C - Portfolio Analysis

Trust Portfolio Analysis

1. Does the institution consider:
    a. Quality and depth of management of the company by looking at past performance and future objectives;
    b. Financial condition and position of the company in its industry
    c. Quality of earnings and historical growth of the company;
    d. Future prospects for the company in terms of sales and earnings, projected price/earnings, price/dividends, potential competition, and peers;
    e. Potential impact of anticipated legislation, possible government intervention, and labor unrest;
    f. The trend of per capital use of the company's products;
    g. Ability of the company to develop new products and/or upgrade existing products;
    h. Marketing capabilities;
    i. Accounting methods; and
    j. Any pending or potential litigation.

2. Regarding debt securities, does the institution consider:
    a. Ability of the borrower to repay;
    b. Rating given to the security by third-party services;
    c. Rates of interest;
    d. Yield to maturity;
    e. Trends of earning power and income projections;
    f. Earnings coverage of interest and other fixed charges; and
    g. Present and future marketability.

3. For decisions regarding unrated debt securities, does the institution consider:
    a. Quality and depth of management;
    b. Adequacy of the capitalization of the company; and
    c. Trends in capital expenditures.

4. In decisions regarding debt securities issued by public utilities, does the institution consider:
    a. Probability that regulatory bodies will grant utility rate increases;

b. The cyclical nature of dominant local industries in their use of the output; and
c. Effect of increased fuel costs upon continued profitability.

5. Regarding investment decisions about all types of general obligation municipal securities, does the institution consider:
    a. The power of the taxing body to levy sufficient taxes to cover debt service;
    b. The sufficiency of actual tax collections to cover the present and future debt service;
    c. The relationship of debt burden to proper valuation;
    d. The reasonableness of debt burden on a per capita basis;
    e. Sinking fund provisions;
    f. Assessed valuation, including the basis of assessment;
    g. Relationship of tax burden to property valuation;
    h. Requirements for balanced budgets;
    i. Recent trends in any budget deficiencies or surpluses;
    j. Cash flow requirements;
    k. Accuracy of past estimates of revenue and expense;
    l. Propriety of accounting practices; and
    m. Accounting methods.

6. Regarding special revenue municipal issues, does the institution consider:
    a. Any covenants by the issuing entity to maintain rates to cover debt service;
    b. Sufficiency of actual tax collections to cover the present and future debt service;
    c. Any restrictions on the issuance of additional bonds; and
    d. Remedies in the event of default.

7. Regarding investment decisions about Industrial Development bonds, does the institution consider:
    a. The sufficiency of rentals to cover debt service;
    b. The lessee’s reputation and financial condition;
    c. Ratings of the lessee’s senior debt securities and equities; and
    d. Remedies for defaults.

Return to Core Analysis – Q4a

APPENDIX D - Higher Risk Investments

Trust Portfolio Analysis - Higher Risk Investments

OPTIONS AND FUTURES

1. Does the institution's written policy authorize the use of options and futures?
2. Does the policy address:
   a. Investment objectives to be accomplished by these types of contracts?
   b. Specific types of contracts to be used?
   c. Types of accounts authorized to use these contracts?
   d. Restrictions and/or conditions upon use of the contracts, such as position limits, time frames, etc.?
   e. Establishment and implementation of periodic auditing and other controls?
3. Has authorization been obtained from account holders or co-trustees to use this type of investment, if applicable?
4. Does the institution's accounting system accurately reflect contract activities with respect to:
   a. Transaction details;
   b. Current gain or loss position on the contract; and
   c. Necessary tax information.
5. Do operating personnel appear sufficiently knowledgeable relative to the level and type of activity.

CLOSELY HELD BUSINESS INTERESTS & LIMITED PARTNERSHIPS

1. Does the institution have satisfactory written policies that require:
   a. Specific authorization (either though the instrument or through a letter of direction) to retain such an asset?
   b. Regular receipt of documents such as financial statements, audit reports, annual reports, etc., to allow for proper supervision?
   c. Representation on the Boards of closely held businesses by the company's officers.
   d. Attendance of stockholder meetings by representative of the institution?
   e. Exercise of stock voting and proxy responsibilities?
   f. Regular reports from any independent administrators retained to manage interests held by trust accounts?
   g. Legal counsel and current valuations of the interests when a decision is made to sell such assets?

h. For partnership interests, annual valuations which:
   - Comply with Internal Revenue Ruling 59-60.
   - Are performed by independent contractors.

2. Is there at least an annual review of closely held business interest by an appropriate committee which covers: current financial information, quality of management and future prospects, adequacy of insurance coverage, and advisability of continuing to retain the asset?

3. Does the institution monitor and control potential conflicts of interest which include an annual review of all transactions between the closely held business and its affiliates and the trust institution to ensure these are at least on an arms-length basis?

SECURED AND UNSECURED LOANS

1. Determine that unsecured loans are allowed under the written authority of the instrument or a formal directive?

2. Does the institution have procedures to perfect its security interest in the collateral for secured loans including obtaining possession of or title to the collateral and recording filings as applicable under the Uniform Commercial Code (UCC).

3. Does the institution have procedures to track payments on the notes and follow-up on delinquencies?

4. Does the institution have procedures to inspect and value any collateral on secured notes?

TANGIBLE ASSETS – *Refers to items such as stamps, coins, bullion, gemstones, antiques, works of art, and other collectible objects. Trustees rarely purchase tangibles for discretionary accounts; instead, they have generally been obtained in directed accounts by principals looking to generate long-term capital gains with no current income tax consequences. Self-directed employee benefit accounts (IRA, Keogh, Pension, and Profit Sharing) are generally prohibited from investing in collectible. However, IRAs may hold legal tender gold and silver coins.*

1. Are tangible assets retained only under the express authority or direction of an account?

2. What asset control procedures are in place?

   a. Evaluate the adequacy of safekeeping arrangements if tangibles are held outside of the institution.

   b. Ensure that tangibles held on site are kept under dual control.

3. What procedures does the institution have to ensure that assets are properly authenticated and insured?

   a. Are appraisals obtained periodically from appropriate sources

   b. Is insurance coverage adequate and are procedures in place to monitor insurance expiration dates.

REAL PROPERTY & REAL ESTATE NOTES

1. Before acceptance into an account, are real estate holdings reviewed and physically inspected to identify potential environmental liability / exposure?
2. Are accounts allowed to hold second or junior mortgages without also holding all senior mortgages?
3. Does the institution have procedures for obtaining essential documents for real property assets such as deeds, mortgages, insurance policies, contracts for sale, closing documents, tax receipts, etc.?
4. Is there a procedure to ensure clear title and avoid liability for unpaid taxes by obtaining a title policy, opinion, or abstract upon receipt of the property?
5. Are there procedures in place to ensure proper insurance is maintained on real property and on real estate collateral?
6. This should include blanket liability to provide protection against damage claims.
7. Are inspection and appraisal / valuation procedures adequate?
8. Inspections are generally conducted annually unless waived by board or board appointed committee for good reason, such as beneficiary occupied.
9. Appraisals should generally be performed every 3 years.
10. Whether performed externally or internally, an appraisal should include comparative sales analysis.
11. An appraisal / valuation may be waived by board or board appointed committee for good reason, including beneficiary occupied and/or fiduciary fee is not based on a market value.
12. Does the institution have adequate systems to ensure that taxes and insurance are paid promptly, and income is received in a timely manner?
13. Is documentation supporting the payment of expenses such as repairs or improvements adequate?
14. Are policies and procedures adequate relating to the retention of agents to manage real property or service real estate loans?
15. Agent qualifications should be reviewed.
16. Agent’s duties should be clearly outlined in an agency or service agreement.
17. Bonding or fidelity insurance may be required if the agent handles money.

18. Agent's performance should be evaluated periodically.

19. An external appraisal should always be obtained prior to selling real property.

20. Are procedures for tracking past due payments on real estate loans satisfactory?

21. There should be an internal reporting of account delinquencies to operations personnel, administrators, and appropriate board appointed committee.

22. Follow-up collection procedures should be in place.

23. There should be a foreclosure procedure to ensure protection of the underlying property, compliance with legal notification requirements, etc.

24. When a real estate loan is paid, are there procedures for:

25. Cancellation and return of the note to the borrower.

26. Release of lien filings.

MINERAL INTERESTS – *Defined as property interest created in oil, gas, and other minerals after severance by deed or lease.*

1. Ascertain the expertise of the institution to administer mineral interests, including use of outside agents if no in-house expertise exists.
2. Are policies governing mineral interests comprehensive?
   a. Policies should be written and approved by the Board or a committee thereof.
   b. Acceptance policies should include a review of the nature of the responsibilities to be performed to determine if sufficient administrative and operational expertise exists.
   c. Do policies require that mineral interests may only be retained, purchased, or sold upon explicit direction of the governing instrument, state law, court order, or authorized letter of direction?
3. Are principal and income on royalty interests accounted for in accordance with Texas Property Code §116.174?
4. Upon acceptance, does the institution obtain and keep in file:
   a. Evidence of title, including a filed conveyance to the trustee in the county in which the interest is located
   b. Tax returns and receipts.
   c. Leases and licenses/permits (for drilling, prospecting, etc.).
   d. Evidence of payment for resource sales.
   e. Operational agreements if working interest are involved.
   f. Property and liability insurance if needed.

   g. Determination of status (leased / un-leased, producing / non-producing?

5. Is the condition of the interest determined annually and include a physical inspection if appropriate.

6. Is the asset properly controlled and ticklers established for:

   a. Follow up on delayed rental payments on non-producing interests;

   b. Expiration of leases and insurance;

   c. Timely receipt of income;

   d. Timely disbursement of expenses; and

   e. Periodic review for any changes in regular income payments?

WORTHLESS / OBSOLETE SECURITIES – *Have no current value. These assets may include stocks, bonds, and notes, and are commonly received by institutions in decedents' estates or guardianship accounts. Despite their lack of value, it is important to maintain control of such assets as they: (1) may regain value at a later date; (2) are an asset under the company's fiduciary responsibility; and (3) may have value to the interested party.*

1. Evaluate procedures for receipt of worthless/obsolete securities.

   a. In the case of stocks and bonds not publicly traded, documentation may be received from the secretary of state evidencing the status of the corporation.

   b. in the case of secured or unsecured notes, the institution should attempt to collect the debt.

2. Have worthless assets been appropriately accounted for by booking them with a nominal value of $1?

3. Does the institution have any worthless assets which were not distributed when an account closed? If so, these should be:

   a. Maintained in a separate account;

   b. Reviewed periodically for potential changes; and

   c. Reviewed for applicability of escheat.

4. Are all worthless assets maintained under dual control to guard against neglect or misappropriation of any securities that may regain value?

Return to Core Analysis – Q4b

APPENDIX E - Collective Investment Fund

The following topics are addressed in this Appendix:

A. Common Risks
B. Administration of CIFs
C. Fund Review
D. STIFS

COLLECTIVE INVESTMENT FUND (CIF) RISK ASSESSMENT FACTORS

Determine the type and quantity of risks (litigation, operational, strategic, and investment), quality of risk management, and adequacy and effectiveness of investment management practices and administration of CIFs, including pooled investments and short-term investment funds. Verify compliance with applicable 12 CFR 9.18 in the administrative review.

A. COMMON TYPES OF RISKS

1. **Litigation** risk for not following applicable law is compliance risk that could lead to reputation risk and violations. Consider the following:

- **a.** Policy Exceptions
- **b.** Complaints with management
- **c.** Internal control deficiencies
- **d.** Regulation requirements 12 CFR 9.18
- **e.** Governing Instrument
- **f.** Account assets are eligible
- **g.** Conflicts of interest and self-dealing

2. **Operational** risk from transaction and reporting requirements. Consider the following:

- **a.** Management reports
- **b.** Management information systems
- **c.** Transactions
- **d.** Audit reports
- **e.** Trade Errors within the transactions inside the funds
- **f.** Trade Errors within client purchases of fund shares

3. **Strategic** risk from having the necessary resources available for the fund's

- **a.** Management expertise
- **b.** Information systems
- **c.** Product development
- **d.** Personnel expenditures

4. Investment risk such as interest rates; fluctuations in equity, debt, and commodity markets; inflation; foreign exchange rates; and other domestic and global economic and political conditions.

Quality of Risk Management

Is the risk management system effective and appropriate for its size and complexity of its operations? Consider the following:

- **a.** Adequate Board and Senior Management supervision
- **b.** Policies and procedures
- **c.** Asset allocation, diversification
- **d.** Fund administration
- **e.** Operational controls for valuations and admissions and withdrawals

Investment Management Practices

Evaluate the adequacy of the management portfolio? Consider the following:

- **a.** Investment objectives
- **b.** Funds' risk/return profile
- **c.** Benchmarks and performances
- **d.** Beneficiaries' needs
- **e.** Income tax consequences
- **f.** Asset and investment reviews

B. ADMINISTRATION OF CIFS

Each CIF, including Pooled Funds, Short Term Investment Funds, and Real Estate Collective shall be established and maintained in accordance with a written plan which shall be approved by a resolution of the trust company's board of directors or by a committee authorized by the board.

Does the plan contain the following Investment powers and policies with respect to the fund:

- **a.** Allocation of income, profits, and losses
- **b.** Fees and expenses that will be charged to the fund
- **c.** Terms and conditions governing the admission or withdrawal of participations in the fund
- **d.** Annual Fund Audits

- **e.** Basis and method of valuing assets in the fund and minimum frequency for the valuations (at least quarterly)
- **f.** Expected frequency for income distribution to participating accounts
- **g.** Amount of time following each such valuation date during which the valuation may be made
- **h.** Basis upon which the fund may be terminated
- **i.** Any other matters necessary to define clearly the rights of participants in the fund.

C. FUND REVIEW

1. Has each fund's governing plan and any amendments thereto been reviewed by bank counsel and approved by a resolution of the Board of directors?

2. As per 12 CFR 9.18(b)(6)(i), are the financial reports of each fund based upon recent audits conducted by auditors responsible only to the Board of directors?

3. Do the financial reports of each fund contain the following information as required by 12 CFR 9.18(b)(6)(ii)?

- **a.** A list of investments as of the fiscal year end showing cost and current market value?
- **b.** A summary of purchases (with costs);
- **c.** A summary of sales (with profit or loss and any other investment changes);
- **d.** Income and disbursements; and
- **e.** An appropriate notation of any investments in default.

4. Are financial reports (and any advertising), devoid of predictions or representations as to the future results of the common trust funds administered by the company? (12 CFR 9.18(b)(6)(iii))

A bank administering a collective investment fund shall provide a copy of the financial report or shall provide notice that a copy of the report is available upon request without charge, to each person who ordinarily would receive a regular periodic accounting with respect to each participating account. The bank may provide a copy of the financial report to prospective customers. In addition, the bank shall provide a copy of the report upon request to any person for a reasonable charge. (12 CFR 9.18(b)(6)(iv))

5. For terminated funds:

- Was a final audit performed as of the termination date?

6. For all pooled funds established by state institutions:

- **a.** Do investments conform to the terms and objectives of the funds?
- **b.** Do procedures ensure that:

- Participation, in the case of IRC Section 501 "group trust" funds, is limited to tax-exempt retirement plans which have adopted the group trust?
- As per SEC Rule 180, only Keogh ("HR-10") plan accounts conforming to the restrictions of SEC Rule 180 are permitted to participate in pooled funds for corporate employee benefit plans?
- IRA accounts are not participated in collective investment funds unless counsel for the trust institution has a written opinion concluding that such participation is consistent with securities laws.

7. For terminated pooled funds:

- Was a final audit performed as of the termination date?

D. SHORT TERM INVESTMENT FUNDS - STIFS

These funds are utilized for the temporary investment of account cash balances. Short-term investment funds (STIFs) are a form of CIF and therefore must seek a tax exemption under either IRC Section 584(b) or Revenue Ruling 81-100. STIFs established for employee benefit plans are not necessarily subject to 12 CFR 9, but for reasons of prudence and equality of supervision, it is recommended that institutions follow the guidelines for operation and investment contained in 12 CFR 9.18(b)(4)(iii) as follows:

> (iii) ***Short-term investment funds (STIFs) method of valuation.*** A bank may value a STIF's assets on a cost basis, rather than mark-to-market value as provided in paragraph (b)(4)(ii) of this section, for purposes of admissions and withdrawals, if the Plan includes appropriate provisions, consistent with this part, requiring the STIF to:
>
> (A) Operate with a stable net asset value of $1.00 per participating interest as a primary fund objective;
>
> (B) Maintain a dollar-weighted average portfolio maturity of 60 days or less and a dollar-weighted average portfolio life maturity of 120 days or less as determined in the same manner as is required by the Securities and Exchange Commission pursuant to Rule 2a-7 for money market mutual funds (17 CFR 270.2a-7);
>
> (C) Accrue on a straight-line or amortized basis the difference between the cost and anticipated principal receipt on maturity;
>
> (D) Hold the STIF's assets until maturity under usual circumstances;
>
> (E) Adopt portfolio and issuer qualitative standards and concentration restrictions;

(F) Adopt liquidity standards that include provisions to address contingency funding needs;

(G) Adopt shadow pricing procedures that:

(*1*) Require the bank to calculate the extent of difference, if any, of the mark-to-market net asset value per participating interest using available market quotations (or an appropriate substitute that reflects current market conditions) from the STIF's amortized cost price per participating interest, at least on a calendar week basis and more frequently as determined by the bank when market conditions warrant; and

(*2*) Require the bank, in the event the difference calculated pursuant to this subparagraph exceeds $0.005 per participating interest, to take action to reduce dilution of participating interests or other unfair results to participating accounts in the STIF;

(H) Adopt procedures for stress testing the STIF's ability to maintain a stable net asset value per participating interest that shall provide for:

(*1*) The periodic stress testing, at least on a calendar month basis and at such intervals as an independent risk manager or a committee responsible for the STIF's oversight that consists of members independent from the STIF's investment management determines appropriate and reasonable in light of current market conditions;

(*2*) Stress testing based upon hypothetical events that include, but are not limited to, a change in short-term interest rates, an increase in participant account withdrawals, a downgrade of or default on portfolio securities, and the widening or narrowing of spreads between yields on an appropriate benchmark the STIF has selected for overnight interest rates and commercial paper and other types of securities held by the STIF;

(*3*) A stress testing report on the results of such testing to be provided to the independent risk manager or the committee responsible for the STIF's oversight that consists of members independent from the STIF's investment management that shall include: the date(s) on which the testing was performed; the magnitude of each hypothetical event that would cause the difference between the STIF's mark-to-market net asset value calculated using available market quotations (or appropriate substitutes which reflect current market conditions) and its net asset value per participating interest calculated using amortized cost to exceed $0.005; and an assessment by the bank of the STIF's ability to withstand the events (and concurrent occurrences of those events) that are reasonably likely to occur within the following year; and

(*4*) Reporting adverse stress testing results to the bank's senior risk management that is independent from the STIF's investment management.

(I) Adopt procedures that require a bank to disclose to STIF participants and to the OCC's Asset Management Group, Credit & Market Risk Division, within five business days after each calendar month-end, the fund's total assets under management (securities and other assets including cash, minus liabilities); the fund's mark-to-market and amortized cost net asset values both with and without capital support agreements; the dollar-weighted average portfolio maturity; the dollar-weighted average portfolio life maturity of the STIF as of the last business day of the prior calendar month; and for each security held by the STIF as of the last business day of the prior calendar month:

(*1*) The name of the issuer;

(*2*) The category of investment;

(*3*) The Committee on Uniform Securities Identification Procedures (CUSIP) number or another standard identifier;

(*4*) The principal amount;

(*5*) The maturity date for purposes of calculating dollar-weighted average portfolio maturity;

(*6*) The final legal maturity date (taking into account any maturity date extensions that may be affected at the option of the issuer) if different from the maturity date for purposes of calculating dollar-weighted average portfolio maturity;

(*7*) The coupon or yield; and

(*8*) The amortized cost value;

(J) Adopt procedures that require a bank that administers a STIF to notify the OCC's Asset Management Group, Credit & Market Risk Division, prior to or within one business day thereafter of the following:

(*1*) Any difference exceeding $0.0025 between the net asset value and the mark-to-market value of a STIF participating interest as calculated using the method set forth in paragraph (b)(4)(iii)(G)(1) of this section;

(*2*) When a STIF has re-priced its net asset value below $0.995 per participating interest;

(*3*) Any withdrawal distribution-in-kind of the STIF's participating interests or segregation of portfolio participants;

(*4*) Any delays or suspensions in honoring STIF participating interest withdrawal requests;

(*5*) Any decision to formally approve the liquidation, segregation of assets or portfolios, or some other liquidation of the STIF; or

(*6*) In those situations when a bank, its affiliate, or any other entity provides a STIF financial support, including a cash infusion, a credit extension, a purchase of a defaulted or illiquid asset, or any other form of financial support in order to maintain a stable net asset value per participating interest;

(K) Adopt procedures that in the event a STIF has re-priced its net asset value below $0.995 per participating interest, the bank administering the STIF shall calculate, admit, and withdraw the STIF's participating interests at a price based on the mark-to-market net asset value; and

(L) Adopt procedures that, in the event a bank suspends or limits withdrawals and initiates liquidation of the STIF as a result of redemptions, require the bank to:

(*1*) Determine that the extent of the difference between the STIF's amortized cost per participating interest and its mark-to-market net asset value per participating interest may result in material dilution of participating interests or other unfair results to participating accounts;

(*2*) Formally approve the liquidation of the STIF; and

(*3*) Facilitate the fair and orderly liquidation of the STIF to the benefit of all STIF participants.

Return to Core Analysis Q4c

APPENDIX F – Pooled Investment Funds

POOLED INVESTMENT FUNDS

Requirements for Administering Pooled Investment Funds

1. Written Plan should include at a minimum per OCC regulation 12 CFR 9.18 (b)(1):

    - Investment powers and policies with respect to the fund;
    - Allocation of income, profits, and losses;
    - Fees and expenses that will be charged to the fund and to participating accounts;
    - Terms and conditions governing the admission and withdrawal of participating accounts;
    - Audits of participating accounts;
    - Basis and method of valuing assets in the fund;
    - Expected frequency for income distribution to participating accounts;
    - Minimum frequency for valuation of fund assets;
    - Amount of time following a valuation date during which the valuation must be made;
    - Bases upon which the bank may terminate the fund;
    - Any other matters necessary to define clearly the rights of participating accounts.

2. Purchases and sales of units are allowed only on a valuation date and only after receiving appropriate approval.

3. Bank may not make any loans secured by the participant's interest in the fund. [OCC 12 CFR 9.18(b)(8)(ii)];

4. Each account participating in a fund represents a proportionate interest in the fund's assets. [OCC 12 CFR 9.18(b)(3)];

5. Accurate and complete subsidiary and control ledgers are maintained for assets and participants; and

6. IRS determination letter is maintained for pooled investment vehicles exempt from federal taxation.

Return to Core Analysis – Q5a

Financial Report

1. Per OCC regulation 12 CFR 9.18(b)(6), the financial report should address the following:
   - A summary of purchases (with costs);
   - A summary of sales (with profit or loss and any other investment changes);
   - Income and disbursements;
   - An appropriate notation of any investments in default;
   - Disclose fees and expenses in a manner consistent with state law;

2. The financial reports should not make predictions or representations as to the future performance of funds.

3. The financial report may not publish the performance of individual funds other than those administered by the bank or its affiliates.

4. A copy of the report is provided, or a notice that a copy of the report is available upon request without charge, to all participants.

Return to Core Analysis – Q5b

Management of Fund by Outside Investment Advisor

1. If management of a fund was delegated to an outside investment advisor, determine whether the delegation is prudent. Consider the following:

   - Delegation is permitted under governing law;
   - The arrangement is governed by a written agreement;
   - The advisor performs only the functions the bank could perform;
   - The trustee bank establishes specific investment guidelines to be followed by the investment advisor;
   - The trustee bank timely reviews the investment advisor's activities; and
   - The trustee bank can terminate the contractual relationship upon reasonable terms.

Return to Core Analysis – Q5e

APPENDIX G - Credit Ratings , Equity Grid, Industry Classifications

Credit Ratings Utilized by Outside Rating Services

Investment Quality

Moody’s	Standard & Poors
Aaa	AAA
Aa	AA
A	A
Baa	BBB
Ba	BB
B	B

Sub Investment Quality

Moody’s	Standard & Poors
Caa	CCC
Ca	CC
C	C
	D

Equity Grid on Morningstar
Sometimes Helpful for Mutual Fund / ETF Models:

	Value	***Core***	***Growth***
Large Cap	Large Cap - Value	Large Cap – Core	Large Cap - Growth
Mid Cap	Mid Cap - Value	Mid Cap – Core	Mid Cap - Growth
Small Cap	Small Cap - Value	Small Cap - Core	Small Cap - Growth

Guides for Diversifying Among Individual Companies: Global Industry Classification Standard Created by MSCI, Inc.

	Sectors
Cyclical	Basic Materials
	Consumer Discretionary
	Financial Services
	Real Estate
Defensive	Consumer Staples
	Health Care
	Utilities
Sensitive	Communications
	Energy
	Industrials
	Information Technology

Industry Classification Benchmark (created by FTSE Russell)

Sector	***Industry***
Energy	Oil & Gas Producers
	Oil & Gas Equipment, Services & Distribution
	Alternative Energy
Basic Materials	Chemicals
	Basic Resources
Industrials	Construction
	Industrial Goods & Services
Consumer Goods	Autos & Parts
	Food & Beverage
	Personal & Household Goods
Health Care	HC Equipment & Services
	Pharmaceuticals and Biotech
Consumer Services	Retail
	Travel & Leisure
	Media & Entertainment
Telecommunications	Fixed line
	Mobile
Utilities	Electric
	Gas, Water & Municipalities
Financials	Banks
	Insurance
	Real Estate
	Financial Services
	Investment Instruments
Technology	Software & Services
	Hardware & Equipment

Return to Appendix – Investment Policy