

# Is Asset Management Worth the Fuss?

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A DIVISION OF  
Gallagher Benefit Services, Inc.

## Highlights

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- Types of investments
- Suitability and risk tolerance
- Impact on bottom line
- Regulations, due diligence, and ongoing administration
- Q & A



## Poll

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Which topic would you like to hear most about today?

1. Types of investments; portfolio composition
2. Financial statements and impact
3. Due diligence; suitability
4. Regulations

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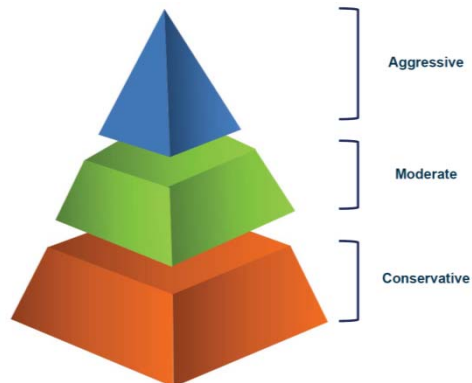
## Types of Investments

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Variable Investments

Structured Products

Fixed Investments



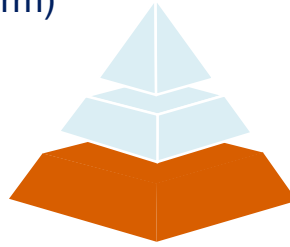
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## Fixed Investments

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**Conservative:** Institutional life insurance and group annuity contract (short term)

- Death benefit liability (life)
- Contractual guarantees
- High credit quality
- No duration risk
- Predictable returns / monthly income
- Book value treatment



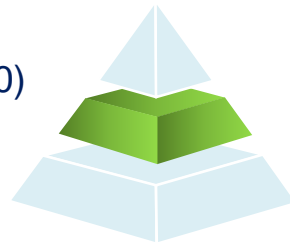
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## Structured Products

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**Moderate**

- Principal protection (at maturity)
- Fixed maturity
- FDIC-insured (up to \$250,000)
- Variety of index options
- Held-to-maturity (HTM) / Available for sale (AFS)



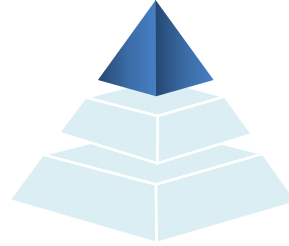
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## Variable Investments

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**Aggressive:** Mutual Funds, ETFs, Stocks, and  
Hedge Funds

- Flexibility
- Transparency
- Exposure to other  
asset classes



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## Suitability and Risk Tolerance

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- Goals and objectives
- Expected (target) return / Volatility
- Time horizon
- IPS

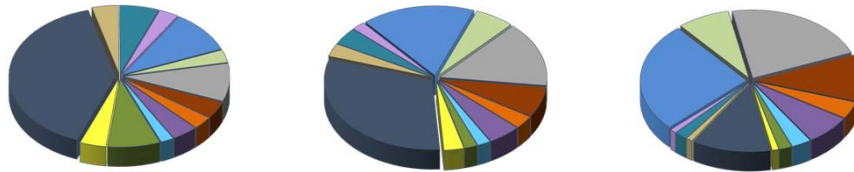
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## Asset Allocation / Portfolio Construction

Conservative

Balanced

Aggressive

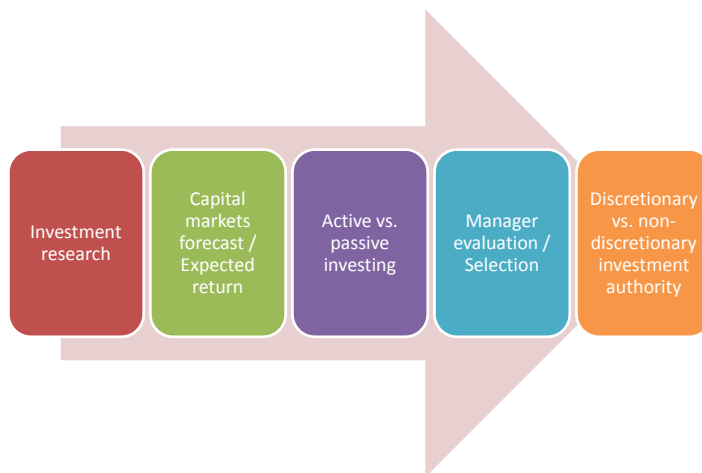


- Cash
- TIPS
- US Bond
- For. Dev. Bond
- HY Bond
- EM Bond
- US Equity (LC)
- US Equity (SC)
- Int'l Dev. Equity
- EM Equity
- Real Estate
- MLPs
- Commod. Fut.

\* Asset allocation does not protect against loss of principal due to market fluctuations. It is a method used to help manage investment risk.



## Portfolio Composition



## Investment Policy Statement

- Executive summary
- Investment objectives
- Investment philosophy
- Investment selection criteria
- Monitoring procedures

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## Impact on Bottom Line

- Accounting classifications (trading, AFS, HTM)
- ASU 2016-01
- Sensitivity of income statement

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## Regulations, Due Diligence, and Ongoing Administration

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## Regulations

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- NCUA – 701.19, 7 risks, direct relationship

- |                      |               |
|----------------------|---------------|
| 1. Transactional     | 5. Strategic  |
| 2. Interest rate     | 6. Compliance |
| 3. Credit worthiness | 7. Reputation |
| 4. Liquidity         |               |

- State charters / Parity

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## Due Diligence

- Board education and oversight
- Vendors

*Sample checklist included with presentation handout*



## Ongoing Administration

- Quarterly / Annual reviews
- Performance
- Benchmarking





## So ... Is Asset Management Worth the Fuss?



## Thank you!



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Save the date! Thursday, July 27, 2:00 pm – 3:00 pm ET  
2017 NAFCU–BFB Gallagher Executive Compensation and Benefits Survey  
Register at [www.nafcu.org/BFB](http://www.nafcu.org/BFB)



BFB Gallagher is the NAFCU Services Preferred Partner for Executive Benefits and Compensation Consulting. More educational resources are available at [www.nafcu.org/BFB](http://www.nafcu.org/BFB).



## Disclosures

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Please note that all investments are subject to market and other risk factors, which could result in loss of principal. Fixed income securities carry interest rate risk. As interest rates rise, bond prices usually fall, and vice versa.

Mutual funds and ETFs are sold by prospectus only. Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of a mutual fund or ETF. The fund prospectus provides this and other important information. Please contact your representative or the Company to obtain a prospectus. Please read the prospectus carefully before investing or sending money.





# Ongoing Nonqualified Plan Due Diligence Checklist

## OVERVIEW

*The Credit Union should review the benefit plan and informal funding investment on an annual basis. The results of this review should be documented in the Board minutes. The following is a checklist of the subjects covered in the review.*

### REASONABLE COMPENSATION PACKAGE

Date Completed:

The Board should review the benefits provided to key employees at the various payment scenarios:

- » Retirement / Payment date
- » Death
- » Disability
- » Involuntary Termination
- » Termination following Change of Control
- » Termination for "Good Reason"
- » Voluntary Termination

### INFORMAL FUNDING REVIEW

Date Completed:

The Board should review the informal funding investment purchased to offset the cost of the benefit plan. This includes:

- » Review of the type of investment
- » Current values
- » Year to date performance
- » Concentration based on percentage of total equity

### OVERALL ANNUAL PLAN PERFORMANCE

Date Completed:

The Board should review the overall performance of the plan. By comparing the annual expense of the plan to the earnings of the investment, the Board will be able to determine if the plan is performing as projected or if they need to make any adjustments.

- » Total expenses, including annual benefit expenses, informal funding fees, premium expenses and administration fees
- » Current income from the informal funding investment
- » Impact to the bottom line of the Credit Union