

AN EXPECTED, MODELED RETURN TO MEET INVESTMENT OBJECTIVES HAS BEEN IDENTIFIED.

There is no requirement or expectation that the Investment Steward forecast future returns. Rather, the Steward is required to state the presumptions that are being used to model the probable outcomes of a given investment strategy.

In this context, the term “model” means to replicate: to determine the expected returns of an investment strategy given current and historical information.

The Steward should determine whether trust documents, spending policies, and/or actuarial reports (for defined benefit retirement plans) establish a minimum investment return expectation or requirement. In all cases, the Steward should determine the expected return a given investment strategy is designed to produce.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§404(a)(1)(A) and (B)

Regulations

29 C.F.R. §2550.404a-1(b)(1)(A); 29 C.F.R. §2550.404a-1(b)(2)(A)

Case Law

Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591, 64 S.Ct. 281, 88 L.Ed. 333 (1944); *Communications Satellite Corporation v. Federal Communications Commission*, 611 F.2d 883 (D.C. Cir. 1977); *Tennessee Gas Pipeline Company v. Federal Energy Regulatory Commission*, 926 F.2d 1206 (D.C. Cir. 1991)

Uniform Prudent Investor Act [UPIA]

§2(b); §2(c)(1-8)

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(e)

Management of Public Employee Retirement Systems Act [MPERS]

§8(a)(1)(A-F); §8(b)

CRITERIA

2.3.1 The “expected” or “modeled” return is consistent with the portfolio’s goals and objectives.

2.3.2 The “expected” or “modeled” return assumptions for each asset class are based on risk-premium assumptions, as opposed to recent short-term performance.

2.3.3 For Defined Benefit plans, the expected return values being used for actuarial calculations are reasonable.