

FIDUCIARYPlanReview™

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OVERVIEW OF REMOTE FIDUCIARY SERVICES

Recordkeeper

THE MISSION:

FIDUCIARYPlanReview™

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- TO INTRODUCE A TECHNOLOGY-BASED TURNKEY RISK MANAGEMENT PROGRAM DESIGNED TO MITIGATE OR ELIMINATE FIDUCIARY RISK FOR PLAN SPONSORS AND SERVICE PROVIDERS

THE PROBLEM:

ISSUE #1: THE INTRODUCTION OF A FIDUCIARY STANDARD

- ERISA REQUIRES PLAN SPONSORS TO SELECT AND MONITOR PLAN INVESTMENTS IN THE SAME MANNER AS PERSONS FAMILIAR WITH GENERALLY ACCEPTED INVESTMENT THEORIES AND PREVAILING INVESTMENT INDUSTRY PRACTICES.
- WHERE PLAN SPONSORS LACK THE NEEDED TECHNICAL KNOWLEDGE TO PROPERLY SELECT PLAN INVESTMENTS, THEY ARE REQUIRED TO HIRE KNOWLEDGEABLE ADVISORS. DOL REGULATION § 2509.95-1(C)(6) STATES THAT “UNLESS A FIDUCIARY POSSESSES THE NECESSARY EXPERTISE TO EVALUATE SUCH FACTORS, HE WOULD NEED TO OBTAIN THE ADVICE OF A QUALIFIED, INDEPENDENT EXPERT.”
- THERE IS AN INCREASE IN HIGH-PROFILE LITIGATION ALLEGING FIDUCIARY BREACHES ON THE PART OF PLAN SPONSORS IN SELECTING AND MONITORING INVESTMENTS.
- DOL HAS ISSUED REGULATION 408(B)(2) THAT WILL EXPOSE PROHIBITED TRANSACTIONS AND FIDUCIARY BREACHES TO A FAR GREATER DEGREE.

DEFINITION: 3(21) vs. 3(38)

3(21) FIDUCIARY

WHEN AN EMPLOYER HIRES A 3(21) ADVISOR, THE EMPLOYER IS NOT RELIEVED OF FIDUCIARY RESPONSIBILITY. RATHER, THEY SIMPLY HIRE AN EXPERT TO JOIN THEM AT THE FIDUCIARY TABLE. TYPICALLY, THE ADVISOR IS EXPECTED TO MAKE RECOMMENDATIONS, BUT IT IS ULTIMATELY UP TO THE PLAN SPONSOR TO DECIDE WHETHER TO ADHERE TO THESE RECOMMENDATIONS. THE ADVISOR IS RESPONSIBLE FOR HIS/HER ADVICE, BUT NOT FOR THE OUTCOME IF THE EMPLOYER GOES IN A DIFFERENT DIRECTION.

3(38) FIDUCIARY

WHEN AN EMPLOYER HIRES A 3(38) INVESTMENT MANAGER, THEY TRANSFER RESPONSIBILITY/LIABILITY FOR THE INVESTMENT MANAGEMENT PROCESS TO THAT PERSON. SINCE THE INVESTMENT MANAGER IS LIABLE, HE OR SHE WILL HAVE DISCRETION IN THE INVESTMENT PROCESS. THE PLAN SPONSOR STILL SHARES LIABILITY FOR SELECTING/MONITORING THE INVESTMENT MANAGER. IF THEY NEGLECT TO MONITOR AND REPLACE A 3(38) INVESTMENT MANAGER THAT IS NOT PERFORMING APPROPRIATELY, THE EMPLOYER CAN FIND THEMSELVES LIABLE FOR THE LACK OF OVERSIGHT.

FIDUCIARY ROLE: 3(21) vs. 3(38)

	NO FIDUCIARY	3(21)	3(38)
FUND SELECTION	SPONSOR	SPONSOR BASED UPON FPR'S ADVICE	FPR
INVESTMENT MONITORING	SPONSOR	SPONSOR/FPR	FPR
LINE-UP CHANGES	SPONSOR	SPONSOR	FPR
ROLE OF SPONSOR	SELECT & MONITOR ALL OPTIONS	SELECT FROM APPROVED FPR'S INVESTMENT OPTIONS AND RECOMMENDATIONS	REVIEW FPR'S SERVICE
ROLE OF FPR	NONE	NON-DISCRETIONARY INVESTMENT ADVISOR	DISCRETIONARY INVESTMENT MANAGER
PROTECTION	NONE	BETTER	BEST

THE PROBLEM:

ISSUE #2: DISTRIBUTION THROUGH NON-SPECIALISTS

- APPROXIMATELY 90% OF ALL SMALL PLANS AND APPROXIMATELY 60% OF ALL LARGE PLANS USE AN ADVISOR/CONSULTANT TO HELP PLAN SPONSORS MEET THEIR FIDUCIARY OBLIGATIONS.
- MANY OF THESE “ADVISORS/CONSULTANTS” ARE “BROKERS” THAT MAINTAIN A VALUABLE CLIENT RELATIONSHIP, BUT DO NOT MAINTAIN THE LEVEL OF EXPERTISE REQUIRED TO PROPERLY SERVICE THEIR PLANS AS A FIDUCIARY.
- THIS RESULTS IN A REAL DILEMMA FOR BROKER DEALERS IN THE MANAGEMENT OF THEIR BROKER’S FIDUCIARY LIABILITY.
- TO THE EXTENT THE ADVISOR IS PROHIBITED FROM RENDERING FIDUCIARY SERVICES, THE PLAN SPONSOR WILL BE REQUIRED TO SEEK ADVICE FROM ANOTHER FIRM.
- IT IS INCUMBENT UPON PLAN SPONSORS TO REVIEW THEIR EXISTING ARRANGEMENTS AND DETERMINE WHETHER THEY ARE PROTECTED AGAINST CLAIMS OF FIDUCIARY BREACH AND TO ENSURE THEY ARE RECEIVING THE PROPER LEVEL OF SERVICE FROM THEIR EXISTING ADVISORS.

THE PROBLEM:

ISSUE #3: DILEMMA FOR RECORDKEEPERS/TPAS

- RECORDKEEPERS AND TPAS DISTRIBUTE 80% OF THEIR PLANS THROUGH BROKERS AND MANY OF THOSE BROKERS PROVIDE A POOR LEVEL OF SERVICE TO THEIR CLIENTS.
- AS A RESULT, THESE CLIENTS PLANS TURN OVER AT A RATE OF 30% PER YEAR, EVEN THOUGH THE RECORDKEEPER IS PERFORMING AT THE HIGHEST LEVEL OF SERVICE.
- RECORDKEEPERS ARE OFTEN THE SCAPEGOAT FOR THE ADVISORS NEGLECT OF A PLAN, TAKING BLAME WHEN ISSUES ARE RAISED BY THE PLAN SPONSOR.
- RECORDKEEPERS AND TPAS HAVE A DESIRE TO SEE THIS TURNOVER RATE REDUCED AND INCREASE RETENTION.
- RECORDKEEPERS AND TPAS ARE LIMITED IN THE RECOMMENDATIONS THEY CAN MAKE FOR PLAN-LEVEL MAINTENANCE WHILE AVOIDING THE ASSUMPTION OF A FIDUCIARY ROLE.
- RECORDKEEPERS AND TPAS MUST AVOID DISTURBING THEIR DISTRIBUTION RELATIONSHIPS WITH THEIR BROKER-DEALERS.

THE SOLUTION:

SOLUTION: FIDUCIARY RELIEF FOR PLAN SPONSORS AND RECORDKEEPERS

- FPR OFFERS A TECHNOLOGY BASED SOLUTION PROVIDING A REMOTE ADVICE PROGRAM THROUGH AN AUTOMATED, TURNKEY PROCESS DESIGNED TO MITIGATE OR ELIMINATE FIDUCIARY RISK FOR PLAN SPONSORS AND SERVICE PROVIDERS.
- FPR UTILIZES ITS TECHNOLOGY TO CROSS-REFERENCE A PLAN'S CURRENT INVESTMENTS WITH THEIR CORRESPONDING PROVIDER'S APPROVED INVESTMENT LIST.
- IF SELECTED, UNDER ERISA SECTION 3(38), FPR WILL COMMUNICATE TO THE RECORDKEEPER ANY RECOMMENDED FUND CHANGES SO THEY CAN BEGIN THE NOTIFICATION AND FUND MAPPING PROCESS.
- FPR OFFERS A WARRANTY CERTIFICATE, REINSURED THROUGH GREAT AMERICAN INSURANCE (AA RATED), TO ASSURE THE PLAN SPONSOR AND RECORDKEEPER THAT A PRUDENT FIDUCIARY PROCESS HAS BEEN MAINTAINED.

THE SOLUTION:

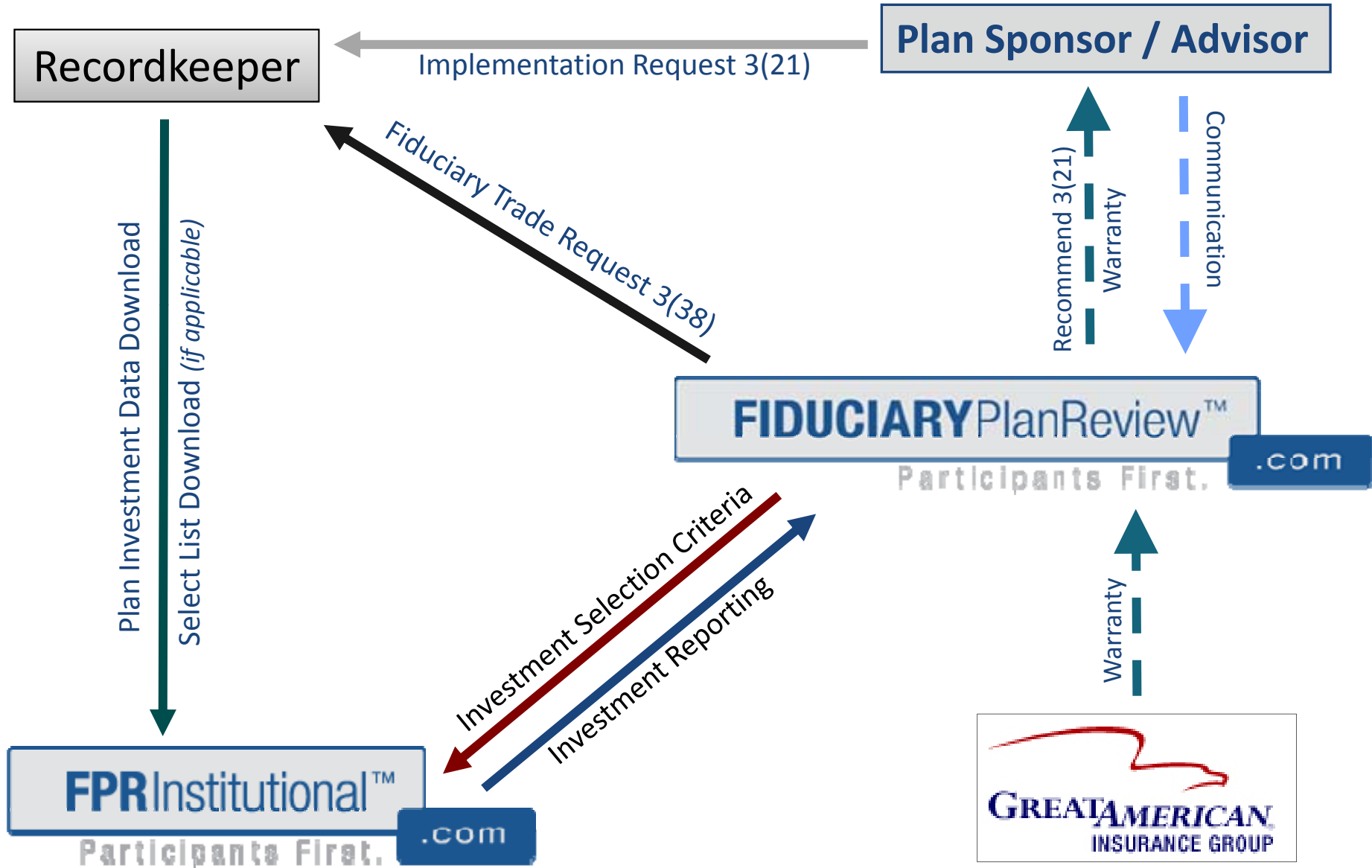
SOLUTION: KEY BENEFITS TO RECORDKEEPERS AND PLAN SPONSORS

1. DUE TO TECHNOLOGY AND SCALE, THE FPR REMOTE ADVISORY SERVICES ARE PRICED TO ACCOMMODATE A PLAN'S EXISTING ADVISOR , THEREBY ELIMINATING DISTRIBUTION CONFLICTS
2. FPR PROVIDES A PRODUCT SOLUTION FOR BROKER-DEALERS AND THEIR ADVISORS TO MITIGATE FIDUCIARY RISK IN LIGHT OF CURRENT LEGISLATIVE TRENDS
3. PROVIDES A SOLUTION FOR ABANDONED PLANS, THEREBY REDUCING ATTRITION
4. FULLY INTEGRATES WITH THE RECORDKEEPER'S CURRENT SELECT LIST, WHETHER INTERNALLY PRODUCED OR THROUGH A THIRD-PARTY RIA (I.E. MORNINGSTAR, MESIROW, IBBOTSON, ETC.)
5. PROVIDES A THOROUGH 3(38) FIDUCIARY SOLUTION, WITH INTEGRATED FIDUCIARY WARRANTY TO INSURE PRUDENT FIDUCIARY STANDARDS
6. MANY SELECT LIST PROVIDERS CARRY A WARRANTY COVERING THE FUND'S FIDUCIARY SELECTION PROCESS, WHICH FITS HAND-IN-GLOVE WITH FPR'S WARRANTY OF FIDUCIARY PROCESS AND SUBSEQUENT SELECT LIST ADHERENCE
7. GIVES RECORDKEEPERS WITH THE FPR SOLUTION A COMPETITIVE EDGE OVER PROVIDERS WITHOUT SUCH A SOLUTION OR OFFERING A LESSER WARRANTY
8. GREATLY INCREASES CLIENT RETENTION AND PLAN'S FIDUCIARY HEALTH

THE PROCESS:

1. *RECORDKEEPER PROVIDES PREFERRED INVESTMENT SELECT LIST TO FPR UPON SELECTION TO OFFER FPR'S SERVICES TO PLAN SPONSOR CLIENTS. IF ELECTED, FPR'S LIST MAY BE UTILIZED.*
2. *RECORDKEEPER MAINTAINS FPR PAPERWORK AND INITIATES FPR CONTRACT WITH PLAN SPONSORS SELECTING OUR SERVICES VIA THE SALES DESK FOR NEW PLANS OR VIA THE PLAN'S ACCOUNT MANAGER FOR RETRO-FIT PLANS*
3. *FPR INPUTS INVESTMENT MONITORING CRITERIA INTO THE CROSS-REFERENCING TECHNOLOGY PLATFORM*
4. *QUARTERLY DOWNLOADS CROSS-REFERENCED WITH PERFORMANCE STANDARDS AND RECORDKEEPER SELECT-LIST .*
5. *UNDER SECTION 3(38), INITIATION OF MAPPING REQUEST AND PARTICIPANT NOTIFICATION REQUEST IS COMMUNICATED DIRECTLY TO THE RECORDKEEPER AS NEEDED.*
6. *FPR MAINTAINS A CALL CENTER FOR ADVISOR AND PLAN SPONSOR COMMUNICATION AS REQUESTED.*
7. *WARRANTY CERTIFICATE IS ISSUED FOR EACH PLAN BY FPR UNDER A MASTER INSURANCE ARRANGEMENT BACKED BY GREAT AMERICAN.*
8. *QUARTERLY FEES ARE COLLECTED AND PAID TO FPR BY THE RECORDKEEPER*

THE PROCESS: TECHNOLOGY WORKFLOW



APPENDIX A – FEE

THE ANNUAL FEE FOR 3(21) FIDUCIARY SERVICES SHALL BE CALCULATED AS FOLLOWS:

PLAN ASSETS	ANNUAL FEE
UP TO \$2,000,000	\$750 (MIN ANNUAL FEE)
\$2,000,000 - \$50,000,000	3.5 BASIS POINTS
OVER \$50,000,000	\$17,500 FLAT FEE (MAX ANNUAL FEE)

THE ANNUAL FEE FOR 3(38) FIDUCIARY SERVICES SHALL BE CALCULATED AS FOLLOWS:

PLAN ASSETS	ANNUAL FEE
UP TO \$2,000,000	\$1,000 (MIN ANNUAL FEE)
\$2,000,000 - \$50,000,000	5 BASIS POINTS
OVER \$50,000,000	\$ 25,000 NEGOTIATED

APPENDIX B – REPORTING

• **COMPREHENSIVE INVESTMENT REPORTING** UTILIZING PROPRIETARY TECHNOLOGY

• **EXECUTIVE SUMMARY** PROVIDING ACTIONABLE ADVICE

• **DETAILED INVESTMENT REVIEWS** SUMMARIZING KEY INVESTMENT CRITERIA

• **FIDUCIARY MONITORING REPORT** OUTLINING KEY PLAN OBJECTIVES

Fund Name	Category	Status	1Y	3Y	5Y	10Y	15Y	20Y
2000 American Century Equity Growth	Equity Growth	Green	▲	▲	▲	▲	▲	▲
2000 T. Rowe Price Equity Income	Equity Income	Green	▲	▲	▲	▲	▲	▲
2000 American Century Equity Growth	Equity Growth	Green	▲	▲	▲	▲	▲	▲
2000 T. Rowe Price Equity Income	Equity Income	Green	▲	▲	▲	▲	▲	▲
2000 T. Rowe Price Equity Income	Equity Income	Green	▲	▲	▲	▲	▲	▲
2000 T. Rowe Price Equity Income	Equity Income	Green	▲	▲	▲	▲	▲	▲
2000 T. Rowe Price Equity Income	Equity Income	Green	▲	▲	▲	▲	▲	▲
2000 T. Rowe Price Equity Income	Equity Income	Green	▲	▲	▲	▲	▲	▲
2000 T. Rowe Price Equity Income	Equity Income	Green	▲	▲	▲	▲	▲	▲
2000 T. Rowe Price Equity Income	Equity Income	Green	▲	▲	▲	▲	▲	▲

Fiduciary Investment Monitoring Report

Creating a written investment policy statement (IPS) is an important step in meeting fiduciary investment selection responsibilities. A documented framework for conducting a prudent review and selection of investment options is generally considered to be a fiduciary best practice. However, the absence of a written IPS increases the likelihood of asset allocation, trading, and timing errors. The fiduciary's duty as a prudent investor does not end with the selection of investment options to ensure that the fiduciary is responsible for monitoring the performance of the investment options to ensure that they continue to meet the standards set out in the IPS. This reporting package is designed to facilitate these key fiduciary investment obligations:

- To determine whether each investment is meeting the objectives stated in the IPS
- To document the analysis and any decisions or actions arising as a result of the review
- To facilitate formal quarterly reviews and timely decisions on a quarterly basis

Even with the most rigorous initial fund selection process, a portfolio of funds will change over time. This report can help highlight important information regarding a fund's risk level, portfolio management, and other characteristics. Please note, this report is not intended to be used as a substitute for professional monitoring.

This folder includes up to six levels of reporting. In order, they are:

- Global Market Commentary** – a quarterly review of recent activity in major capital markets, investment returns by outlook, and a summary of key macroeconomic developments. It also reflects on noteworthy news that could impact investor behavior and investment plan administration and registration.
- Executive Summary** – provides a quick view of how each fund in the plan is performing and identifies any funds requiring attention based on the criteria chosen. The checklist and checklist any funds requiring attention based on the criteria chosen. The checklist and checklist any funds requiring attention based on the criteria chosen. The checklist and checklist any funds requiring attention based on the criteria chosen.
- Portfolio Data Report** – provides a graphic view of the plan portfolio's coverage across the universe of equity and fixed income investments.
- Performance Summary** – provides performance information for each fund included.
- Exit Criteria Report** – provides comparisons of each fund, its peer average and benchmark against the specific monitoring criteria selected. The checkmarks in the Report Criteria page indicate which specific criteria were chosen to be displayed in the Fund Criteria Report. Any number of criteria up to 10 may be chosen to be shown. The more that are selected, the more information that will be shown in the report. The criteria are not merged and are neither ranked nor prioritized in order of importance.
- Exit List Report** – provides a one page snapshot of additional information for each fund in the plan. (Included in ongoing investment monitoring reporting only)

APPENDIX C – INVESTMENT CRITERIA

THE FOUR P'S – BALANCING QUALITATIVE & QUANTITATIVE FACTORS

– THE RANKING SYSTEM IS UNBIASED AND MEASURES QUALITATIVE FACTORS AS WELL AS QUANTITATIVE CRITERIA ACROSS MEANINGFUL TIME PERIODS. THE QUALITATIVE FACTORS FOCUS ON THE FIRM, TEAM AND INVESTMENT PROCESS. THE QUANTITATIVE FACTORS FOCUS ON PERFORMANCE OF THE MANAGEMENT STRATEGY AGAINST IT'S PEERS, IT'S BENCHMARK AND RISK-ADJUSTED METRICS. THIS COMBINATION OF FACTORS CAN HELP GIVE US INSIGHT TO THE RATIONALE BEHIND A MANAGERS PERFORMANCE, AND CAN HELP US MORE EFFECTIVELY IDENTIFY PROBLEMS BEFORE THEY TRANSLATE INTO FUTURE PERFORMANCE ISSUES.

	PEOPLE	PROCESS		PERFORMANCE						PRICE
				PEER GROUP		BENCHMARK		RISK - ADJUSTED		
Criteria	Manager Tenure	Track Record	R-Squared 3 year	Total Return 1 Year	Total Return 3 Year	Total Return 5 Year	Total Return 10 Year	Sharpe Ratio 3 Year	Info. Ratio 5 Year	Expense Ratio
Hurdle Rate	Greater Than 3 Years	Greater Than 5 Years	Greater Than 80	Top 60%	Top 50%	Greater Than Benchmark	Greater Than Benchmark	Greater Than Average	Top 50%	Top 60%
Weighting	8%	7%	10%	10%	10%	10%	10%	12%	13%	10%

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