



## The fi360 Fiduciary Score® methodology

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## What is the fi360 Fiduciary Score?

The fi360 Fiduciary Score (“Score”) is an investment rating system born out of Practice 3.1 in the *Prudent Practices for Investment Fiduciaries* handbook series. It helps quickly identify a short list of investments that merit continued research in the selection process. It also facilitates the ongoing monitoring process by highlighting investments that contain potential deficiencies.

The Score evaluates investments on nine different criterion across a spectrum of quantitative data points to determine if the investment meets a minimum fiduciary standard of care. The nine criteria include: regulatory oversight, track record, assets in the investment, stability of the organization, composition consistent with asset class, style consistency, expense ratio/ fees relative to peers, risk-adjusted performance relative to peers, and performance relative to peers.

The Score is a flash-report on a selected investment. It is a useful tool for investment decision-makers to identify and monitor investments in the course of their due diligence process. **The fi360 Fiduciary Score represents a suggested course of action and is not intended, nor should it be used as the sole source of information for reaching an investment decision.**

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## Calculating the fi360 Fiduciary Score

The fi360 Fiduciary Score is a peer percentile ranking of an investment against a set of quantitative due diligence criteria selected to reflect prudent fiduciary management. The fi360 Fiduciary Score is calculated on a quarterly basis for investments with at least a three year history. The Score is calculated for open end mutual funds, exchange-traded funds (“ETFs”), and Insurance Group Separate Accounts (“IGSAs”).

The fi360 Fiduciary Score (Quarter) is calculated by first combining open end mutual fund and ETF databases (data source: Morningstar). Each investment is then evaluated against the individual criterion (factors and thresholds) and point system identified in the Criteria section of this document. If an investment fails a criterion, points are allotted. Next, the points are totaled and the total for each investment is ordered from lowest to highest within each peer group. Each investment is then given a percentile ranking based on its placement in the distribution of their peer group. IGSAs are ranked relative to their corresponding mutual fund/ETF peer group. Investments with 0 points are automatically given an fi360 Fiduciary Score of 0. Every other investment is given a Score of 1-100 representing their percentile ranking.

The fi360 Fiduciary Score (Average) is a one-, three-, five- or ten-year rolling average of an investment’s quarter scores. The Average Score is also calculated on a quarterly basis.

As an example, an investment with an fi360 Fiduciary Score of 37 would place it in the 37<sup>th</sup> percentile of its peers. An fi360 Fiduciary Score of 0 is most favorable. It represents that an investment meets or exceeds all of fi360’s recommended due diligence thresholds. A Score of 100 is least favorable.

## Calculation notes

- The fi360 Fiduciary Score process relies upon peer group comparison. Determining an investment's appropriate peer group or asset class is subjective. There are no industry standards for determining a money manager's investment style or peer group, which makes it difficult to track some investments across different databases. Fi360 utilizes Morningstar data in the calculation of the fi360 Fiduciary Score and therefore uses the Morningstar Category™ as the investment's peer group.
- To make the peer group analysis meaningful, the data set should be substantial enough to draw comparisons. With that in mind, fi360 requires at least five distinct investments with a three year history in order to calculate a Score for the investments in a peer group. Investments within peer groups that do not meet the requirement will not receive a Score.
- Fi360 also utilizes Morningstar Extended Performance data in its calculations. Mutual fund share classes that don't have the history to receive a fi360 Fiduciary Score will receive a Quarter Score using their parent share class data adjusted for expenses. Regardless of the length of existence, an investment will only receive an Average Score after the appropriate amount of individual Quarter Score have been calculated. Extended performance data will not "back-date" an Average Score for a brand new fund share class. *Note: Extended Performance data was introduced with the 12.31.2010 calculations.*
- When evaluating Insurance Group Separate Accounts (IGSAs), the combined mutual fund/ETF peer group data is used as the backdrop to rank the IGSAs. The IGSA database is limited in size and since these products are used interchangeably in the marketplace with mutual funds, the combined mutual fund/ETF peer groups provide a better analysis of the IGSA's data.

## The fi360 Fiduciary Score Criteria

- **Regulatory oversight:** The investment should be managed by: (a) a bank, (b) an insurance company, (c) a registered investment company (mutual fund), or (d) a registered investment adviser.
  - Unregistered products are excluded from fi360's calculations.
- **Minimum track record:** The investment should have at least three years of history so that performance statistics can be properly calculated.
- **Stability of the organization:** The same portfolio management team should be in place for at least two years. In a management team setting, the most senior manager's tenure should be at least two years.
  - 5 points if there has been manager turnover in the past two years
  - 10 points if there has been manager turnover in the past year
- **Assets in the investment:** The investment should have at least \$75 million under management (across all share classes.)
  - 5 points if the product has less than \$75 million in assets
  - 10 points if the product has less than \$50 million in assets
- **Composition consistent with asset class:** At least 80% of the investment's underlying securities should be consistent with the broad asset class. For example, a Large-Cap Growth product should not hold more than 20% in cash, fixed income and/or international securities (Only applicable to certain peer groups – see the [Appendix](#) for more information.)
  - 10 points if more than 20% of the portfolio is inconsistent with the broad asset class
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**Note:** The broad asset classes used in the composition criterion include: U.S. Stocks, U.S. Bonds and Non-U.S. Stocks. The Long-Short peer group is evaluated on the U.S. Stock and Cash composition.
- **Style consistency:** The product must be highly correlated to the asset class of the investment option. This means the Morningstar Style Box™ for the current quarter must match the peer group of the investment. (Only applicable to certain peer groups – see the [Appendix](#) for more information.)
  - 10 points if the product is not correlated to its peer group
- **Expense ratios/fees relative to peers:** The product's fees should not be in the bottom quartile (most expensive) of their peer group. The Prospectus Net Expense Ratio is used for the evaluation of mutual funds and ETFs. It includes all fund management costs, 12b-1 fees, administrative fees, and all other asset-based costs incurred by the fund, except brokerage costs. If the product is purchased within a group annuity product, any recordkeeping fees added to the underlying fund expense ratios by the group annuity provider are not included in this ratio. The management fee is used in the evaluation of IGSA's. It is the maximum percentage deducted from an investment's average net assets to pay an advisor or sub-advisor.
  - 10 points if the product's expense ratio is in the bottom quartile

- **Risk-adjusted performance relative to peers:** The product's risk-adjusted performance (Alpha and Sharpe Ratio – see [Appendix](#) for more information) should be above the peer group median manager's risk-adjusted performance. (Alpha is not evaluated for Money Market and Money Market Taxable peer groups.)
  - 2.5 points if the risk-adjusted performance is in the third quartile
  - 5.0 points if the risk-adjusted performance is in the fourth quartile
  - 7.5 points if the risk-adjusted performance is in the bottom decile
  - 7.5 points if not calculated
  
- **Performance relative to peers:** The product's performance should be above the peer group's median manager return for 1-, 3- and 5-year cumulative periods.
  - One-year performance relative to the median value for the peer group:
    - 2.5 points if in the third quartile
    - 5.0 points if in the fourth quartile
    - 7.5 points if in the bottom decile
    - 7.5 points if not calculated
  - Three-year performance relative to the median value for the peer group:
    - 5.0 points if in the third quartile
    - 7.5 points if in the fourth quartile
    - 10.0 points if in the bottom decile
    - 10.0 points if not calculated
  - Five-year performance relative to the median value for the peer group:
    - 7.5 points if in the third quartile
    - 10.0 points if in the fourth quartile
    - 12.5 points if in the bottom decile
    - If the investment does not have a five-year performance history:
      - 7.5 points if the three-year performance is in the third quartile
      - 10.0 points if the three-year performance is in the fourth quartile
      - 12.5 points if the three-year performance is in the bottom decile
      - 12.5 points if the three-year performance not calculated

## Interpreting the fi360 Fiduciary Score

The fi360 Fiduciary Score bar charts provide a visual representation of the investment's Score. The following thresholds provide the user with an easy to view assessment of the investment and a suggested course of action.

### fi360 Fiduciary Score: 0

No fiduciary due diligence shortfalls.

### fi360 Fiduciary Score: 1–25

The investment may be an appropriate choice for use in a fiduciary account.

### fi360 Fiduciary Score: 26–50

The investment has noteworthy shortfalls. It may not be an appropriate choice if being considered in a search. However, if already in use, the investment may not need to be replaced.

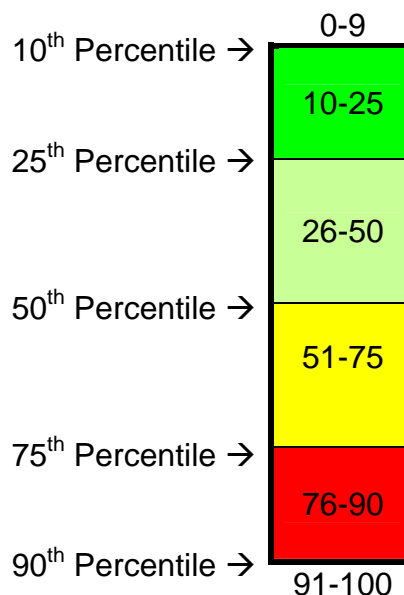
### fi360 Fiduciary Score: 51–75

The investment has considerable shortfalls. It may not be an appropriate choice if being considered in a search. However, if already in use, the investment may not need to be replaced.

### fi360 Fiduciary Score: 76–100

The investment has significant shortfalls and may not be appropriate for use in a fiduciary account. Strongly consider replacing the investment if already in use.

### Bar Chart Example:



## Appendix

### Composition consistent with asset class

This criterion is only applied to investments in the following peer groups: Large Value, Large Blend, Large Growth, Mid-Cap Value, Mid-Cap Blend, Mid-Cap Growth, Small Value, Small Blend, Small Growth, Long Government, Long-term Bond, Intermediate Government, Intermediate-term Bond, Muni National Long, Muni Single State Long, Muni National Interm, Diversified Emerging Mkts, Europe Stock, Diversified Pacific/Asia, Pacific/Asia ex-Japan Stk, Japan Stock, Latin America Stock, Foreign Large Value, Foreign Large Blend, Foreign Large Growth, Foreign Small/Mid Value, Foreign Small/Mid Growth, China Region, Muni California Long, Muni California Intermediate, Muni New York Intermediate, Muni New York Long, Muni New York Intermediate, Muni Single State Interm, Inflation-Protected Bond and Long-Short.

### Style consistency

This criterion is only applied to investments in the following peer groups: Large Value, Large Blend, Large Growth, Foreign Large Value, Foreign Large Blend, Foreign Large Growth, Foreign Small/Mid Value, Foreign Small/Mid Growth, Mid-Cap Value, Mid-Cap Blend, Mid-Cap Growth, Small Value, Small Blend, Small Growth, Long Government, Intermediate Government, Short Government, Long-term Bond, Intermediate-term Bond, Short-term Bond, High Yield Bond, Muni California Long, Muni California Intermediate, Muni National Long, Muni National Interm, Muni Short, Muni New York Long, Muni New York Intermediate, Muni Single State Long, Muni Single State Interm, and Inflation-Protected Bond.

### Risk-adjusted performance relative to peers

Morningstar calculates the Alpha and Sharpe Ratios used in the evaluation. Alpha is calculated using one of the six broad asset class indexes shown below.

Broad Asset Class	Broad Asset Class Index
U.S. Stock	S&P 500 TR
International Stock	MSCI EAFE NR USD
Municipal Bond	BarCap Municipal TR USD
Balanced	Morningstar Moderate Target Risk
Taxable Bond	BarCap US Agg Bond TR USD
Commodities	Morningstar Long-Only Commodity TR
Alternative	ML USD LIBOR 3 Mon CM

The broad asset classes shown above correspond to the peer groups in the following manner:

U.S. Stock	International Stock	Municipal Bond	Balanced
Communications	China Region	High Yield Muni	Aggressive Allocation
Consumer Discretionary	Diversified Emerging Mkts	Muni California Intermediate	Conservative Allocation
Consumer Staples	Diversified Pacific/Asia	Muni California Long	Convertibles
Equity Energy	Europe Stock	Muni Massachusetts	Moderate Allocation
Financial	Foreign Large Blend	Muni Minnesota	Retirement Income
Health	Foreign Large Growth	Muni National Interm	Target-Date 2000-2010
Industrials	Foreign Large Value	Muni National Long	Target-Date 2011-2015
Large Blend	Foreign Small/Mid Growth	Muni New Jersey	Target-Date 2016-2020
Large Growth	Foreign Small/Mid Value	Muni New York Intermediate	Target-Date 2021-2025
Large Value	Global Real Estate	Muni New York Long	Target-Date 2026-2030
Leveraged Net Long	Japan Stock	Muni Ohio	Target-Date 2031-2035
Mid-Cap Blend	Latin America Stock	Muni Pennsylvania	Target-Date 2036-2040
Mid-Cap Growth	Pacific/Asia ex-Japan Stk	Muni Short	Target-Date 2041-2045
Mid-Cap Value	World Stock	Muni Single State Interm	Target-Date 2050+
Miscellaneous Sector		Muni Single State Long	World Allocation
Natural Resources			
Real Estate	<b>Taxable Bond</b>	<b>Alternative</b>	<b>Commodities</b>
Small Blend	Inflation-Protected Bond	Bear Market	Commodities Agriculture
Small Growth	Intermediate Government	Currency	Commodities Broad Basket
Small Value	Intermediate-Term Bond	Equity Precious Metals	Commodities Energy
Technology	Long Government	Long-Short	Commodities Industrial Metals
Utilities	Long-Term Bond	Market Neutral	Commodities Miscellaneous
	Short Government		Commodities Precious Metals
	Short-Term Bond		
	Bank Loan		
	Emerging Markets Bond		
	High Yield Bond		
	Multisector Bond		
	Stable Value		
	Ultrashort Bond		
	World Bond		