

**CEΦEX**  
CENTRE FOR FIDUCIARY EXCELLENCE

**CEΦEX**  
CENTRE FOR FIDUCIARY EXCELLENCE

**CEFEX-Certified Advisors and Stewards  
Are Continually Improving**

F360 National Conference

Carlos Panksep  
General Manager, CEFEX  
May 8, 2009

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**CEΦEX**  
CENTRE FOR FIDUCIARY EXCELLENCE

What is CEFEX?

- Certification Body operating per ISO 17021
- Principles:
  - competence
  - impartiality
  - transparency
  - confidentiality
  - Responsibility
- Established in 2006

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Assessment Process

**1. OFF-SITE DATA COLLECTION**  
CEFEX analyst gathers and formats information

**2. ON-SITE ASSESSMENT**  
Verify data and interview key personnel



**3. THE REPORT**

- Findings
- Opportunities for Improvement
- Non Conformities
- Recommendation

**4. INDEPENDENT REVIEW**  
CEFEX Registration Committee makes certification decision

**5. CERTIFICATE ISSUED**  
Certificate issued to candidate. Public viewing at [www.cefex.org](http://www.cefex.org).

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## Certification



A CEFEX Certification is an independent recognition of a Fiduciary's conformity to all Practices and criteria.



Seal of Excellence



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## Commitment to Quality



- Certified firms are outstanding in industry because they have:
  - voluntarily accepted a third party audit
  - subjected themselves to audit findings
  - exhibited accountability and transparency
  - implemented continuous improvement
- The Standard of Fiduciary Practice is set high: certified firms strive for excellence.

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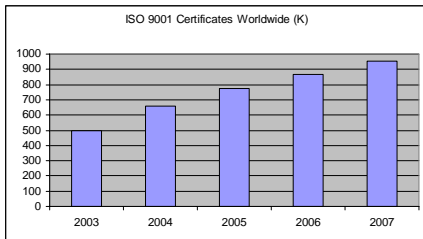
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## Quality Management Worldwide



Certificates issued in 175 Countries

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## CEFEX Registration Statistics



### - Registrations:

- Investment Advisors/Advisers: 38
- Investment Managers: 4
- Investment Stewards: 8
- Recordkeepers: 15
- Support Services: 1

- Over \$150B assets under administration
- Range: \$10M - \$40B

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## ASPPA Program



- American Society for Pension Professionals & Actuaries (ASPPA) is a leading retirement industry association:
  - Professional credentials
  - Legislative tracking
  - Regulatory representation
  - Leadership for independent recordkeepers

- Convened task force of cross industry representatives to establish a Standard for Recordkeepers
  - Based on Fiduciary Standard of Excellence
  - Written to assure fiduciaries that the recordkeeper's practices are aligned with their responsibilities.

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## Recordkeeping Standard



- Separate certification program, using the same ISO 19011 assessment process
- Three service classifications:

### Service Classification 1 ("Stand-Alone")

Full-service recordkeeping including investments and administration services.

### Service Classification 2 ("Alliance")

Full-service recordkeeping and Third Party Administration services, through multiple alliances.

### Service Classification 3 ("Administration Only")

Third Party Administration services.



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## Study Parameters



### Fiduciary

- Period of Study: July 2006 – March 2009
- Registration Types: Investment Advisor, Steward, Fiduciary Adviser
- Number of assessments: 76
- Number of CFX files: 43

### ASPPA Recordkeeper

- Number of assessments: 17
- Number of CFX files: 14

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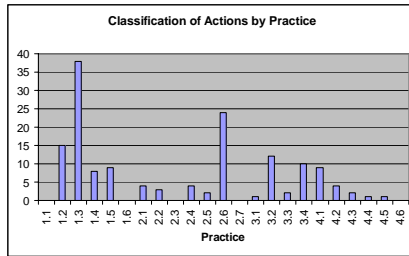
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## Overview of Actions



Total Assessment Actions: 150  
 Average Actions per Assessment: 2  
 Average AUM: \$1.1B

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## Most Actioned Practices



- 1.3 The roles and responsibilities of all involved parties (fiduciaries and non-fiduciaries) are defined, documented, and acknowledged.
  - 1.3.1 The roles and responsibilities of all parties are documented in the IPS.
  - 1.3.3 All parties have acknowledged their status in writing.

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## Most Actioned Practices

- 2.6 There is an IPS which contains the detail to define, implement, and monitor the Client's investment strategy.
  - 2.6.5 Each Client's IPS defines procedures for controlling and accounting for investment expenses.

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## Most Actioned Practices

- 1.2 Investments are managed in accordance with applicable laws, trust documents, and written investment policy statements (IPS).
  - 1.2.3 Investments are managed in accordance with each client's written IPS.
  - 1.2.4 Documents pertaining to the investment management process are filed in a centralized location.

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## Most Actioned Practices

- 3.2 When safe harbors are elected, the investment strategy is implemented in compliance with the applicable safe harbor provisions.
  - 3.2.3 Applicable Fiduciary Adviser safe harbor requirements are implemented properly, when elected.
  - 3.2.4 Applicable qualified default investment alternative (QDIA) requirements are implemented properly, when elected.

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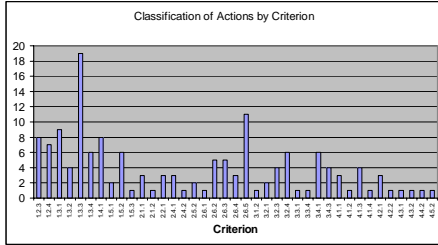
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## Extent of Action



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## Investment Characteristics



- Avg. % of **funds** with Watch List 4 status: 4.3% n=50
- Avg. % of **clients** with Watch List 4 status: 4.2% n=23
- Avg. % of **assets** with Watch List 4 status: 2.0% n=38

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## Investment Characteristics



Input:

- 30% Large cap equities
- 15% Small cap equities
- 15% International equities
- 30% Intermediate fixed income
- 10% Money market, cash, short-term fixed income

Output:

	2006	2007	2008
	n=5	n=17	n=25
FI360 Risk (SD)	8.9%	9.7%	9.5%
Avg. Modeled Risk	8.9%	9.2%	9.2%
FI360 Return	7.7%	8.4%	6.6%
Avg. Modeled Return	10.0%	10.3%	7.8%

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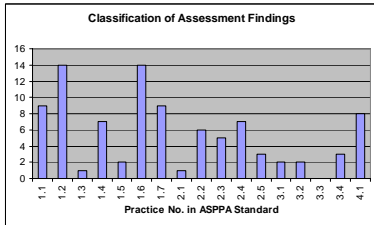
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## ASPPA Recordkeeper Summary



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## Most Actioned RK Practices

**1.2** There are clear lines of authority and accountability, and the mission, operations, and resources operate in a coherent manner.

1.2.1 There is a well-defined mission statement for the organization as a whole that is communicated to all levels of personnel.

1.2.5 The roles and responsibilities of all parties are defined, and documented.

**1.6** There is a formal structure supporting effective procedural and operational oversight.

1.6.2 There is a regular management review process to ensure that policies and procedures are appropriate.

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## Most Actioned RK Practices

**1.1** Senior management demonstrates expertise in their field, and there is a clear succession plan in place.

**1.7** There is an effective risk-management process to manage the organization's business risk.

**2.4** There is adequate and appropriate disclosure and delineation of the cost of services provided to each client serviced.

**4.1** There is a process to periodically review the organization's effectiveness in meeting its client responsibilities.

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## Value of Certification



In addition to marketing benefits,  
certification is an important stimulus for  
business improvement

See ISO 9001 value video  
(7 minutes)

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## Thank-you!



Carlos Panksep  
General Manager, CEFEX  
[cpanksep@cefex.org](mailto:cpanksep@cefex.org)  
416-401-8702

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## The OFI



- "Opportunities for Improvement" are observations documented by the CEFEX Analyst during the assessment.
- Classified by Practice criteria
- Serve as input to the registered firm's management for continuous improvement
- Followed-up in 12 months at renewal assessment.

OPPORTUNITIES FOR IMPROVEMENT (OFI)

Client Name: \_\_\_\_\_  
Client Address: \_\_\_\_\_  
Client Contact: \_\_\_\_\_  
Client Phone: \_\_\_\_\_

Government Industry:  Health  Education  Non-Profit/Manager  Retail/Trade

Practice: \_\_\_\_\_

A. IDENTIFY PROBLEMS

B. ACTION TO BE TAKEN TO CORRECT PROBLEMS

REGISTERED FIRM: \_\_\_\_\_  
DATE: \_\_\_\_\_

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**CEFEX**  
**Certification Assessment Overview**

**April 2009**

*For distribution to CEFEX Registered Firms and CEFEX Analysts only.*

# Part 1

## **1. Introduction**

The fiduciary certification program by CEFEX gives confidence to registered firms and their stakeholders that the firm's management system fulfils the requirements of the standard of excellence for fiduciaries (the Standard). The CEFEX certification increases public confidence and client trust, through an impartial and competent third party assessment program. Firms which are registered in this program are outstanding in the industry, as they publicly proclaim their adherence to the Standard.



*The CEFEX certification mark.*

Through their participation in annual assessments, the firms regularly take steps to improve their practices. These improvements are verified by the external CEFEX Analyst, and documented. This program represents an important vehicle for continuous improvement within the firms. Clients of registered firms can be assured that the firms are continually seeking ways to achieve operational excellence. Registered firms exhibit the confidence to allow third party audits and therefore increase the level of accountability within the firm.

## **2. Purpose of Study**

### Primary

This study will assist the registered firm in benchmarking its own practices. By reviewing aggregated actions, a firm can establish a better perspective of its own operation, and therefore prioritize existing business improvement initiatives, or generate new ones.

### Secondary

This study will assist the stakeholders in the program including CEFEX and CEFEX Analysts, by providing a summary of fiduciary excellence in practical terms.

### **3. Background**

The CEFEX Certification Program has been in operation since 2006. The assessment includes an initial audit, and annual renewal assessments. The determination of the extent of assessment considers the size of the client organization, the scope and complexity of its management system, products and processes, and the results of any previous audits. The CEFEX assessment is based on the international standard, **ISO 19011**: Guideline for quality and/or environmental system auditing, and is adjusted to align with the needs of the investment industry.

The assessment contains the following elements: initial preparation, off-site document review, assessment plan, on-site assessment, post-assessment activity, and registration. The assessment may result in the issuance of findings in the form of non-conformities (NCR) and/or opportunities for improvement (OFI). A non-conformity is a serious deficiency demonstrating a lack of adherence to a practice within the reference Standard. The candidate has 90 days to correct the deficiency, thereby allowing the registration process to continue. OFI's do not affect the registration process, but corrective action is recommended before the following renewal assessment.

### **4. Study Parameters**

Period of Study:	July 2006 – March 2009
Registration Types:	Investment Advisor, Steward, Fiduciary Adviser
Number of assessments:	76
Number of CFX files:	43

## **5. Results Summary**

Total Assessment Findings:	150
Assessments without Findings:	19
Average Findings per Assessments:	2
Average Assets	\$1.1B

### **5.1 Selected Investment Data Summary**

The CEFEX assessment contains numerous questions regarding investment options used by the Advisor or Steward. The following questions have been summarized for this analysis:

#### **Question 13a)**

#### **According to the fi360 mutual fund/ETF profile and/or Investment Manager Evaluation Form, what percentage of funds warrant "Watch List 4" status?**

The fi360 Fiduciary Score TM, as calculated by the fi360 Analyzer, 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 Mutual Funds and/or ETF's (funds) that merit further research in the selection process and also facilitates the ongoing monitoring process by highlighting funds that contain potential deficiencies.

The Score evaluates funds on nine different screens across a spectrum of quantitative data points to determine if the fund meets a minimum fiduciary standard of care. The nine screens include: regulatory oversight, track record, assets in the fund, 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.

A "Watch List 4" (WL4) fund has significant shortfalls and may not be appropriate for use in a fiduciary account. The Advisor should strongly consider replacing the fund. The following are the averages observed over the study period.

Average percentage of <b>funds</b> with Watch List 4 status:	4.3%	n=50
Average percentage of <b>clients</b> with Watch List 4 status:	4.2%	n=23
Average percentage of <b>assets</b> with Watch List 4 status:	2.0%	n=38

The averages above represent the number of WL4 funds within the Advisor's complete investment lineup. "n" is the number of individual assessments where investment lineups were measured. It was noted that in some cases, Advisors keep WL4 funds in their lineup, at the request of clients.

The universe of funds within the fi360 Analyzer would contain a total of 25% WL4 funds. The above results indicate that the CEFEX-certified firms use a significantly lower number of WL4 funds. A future study would compare the WL4 percentages between CEFEX and non-CEFEX certified firms.

**Question 8b)**

**Compare the risk/return estimates generated using the Advisor’s asset allocation software or portrayed for a model portfolio used by the Advisor to the comparable estimates generated by the fi360 Optimizer for the same asset allocation. Calculate the risk/ return profile of the following asset mix:**

- 30% Large cap equities
- 15% Small cap equities
- 15% International equities
- 30% Intermediate fixed income
- 10% Money market, cash, short-term fixed income

**Record Modeled Risk (one or more of the following may be used):**

- Worst case scenario \_\_\_\_\_
- Standard Deviation \_\_\_\_\_
- Other (Specify) \_\_\_\_\_

**Record Modeled Return \_\_\_\_\_**

The summary of data points from the assessments are as follows:

	<b>2006</b>	<b>2007</b>	<b>2008</b>
	n=5	n=17	n=25
Fi360 Risk (SD)	8.9%	9.7%	9.5%
Avg. Modeled Risk	8.9%	9.2%	9.2%
Fi360 Return	7.7%	8.4%	6.6%
Avg. Modeled Return	10.0%	10.3%	7.8%

“n” is the number of assessments which contained individual measurements of risk and return for the standard asset allocation above. The results are reported on an annual to coincide with the annual changes in the fi360 Optimizer model assumptions.

The results indicate that the Advisor’s modeled returns tend to be higher than the fi360 model, whereas the risks (standard deviations) tend to be lower, representing moderately optimistic view on investment portfolios.

## 5.2 Classification of Actions by Practice

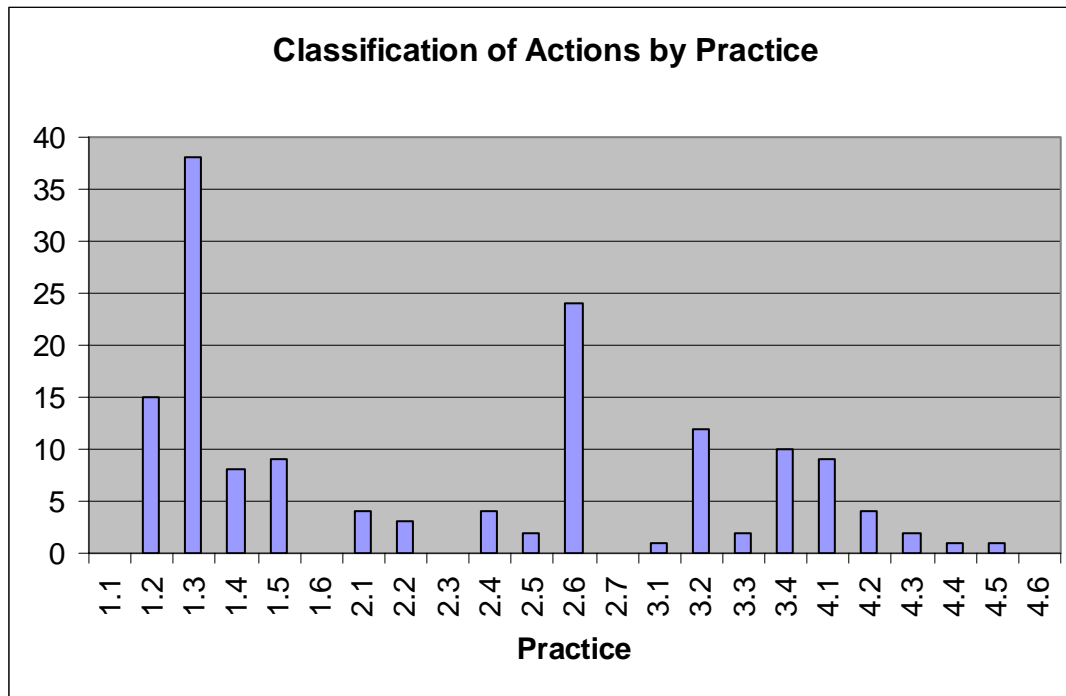


Table 1: Classification of Actions by Practice

The Practices exhibiting the most action are:

1.3 The roles and responsibilities of all involved parties (fiduciaries and non-fiduciaries) are defined, documented, and acknowledged.

2.6 There is an IPS which contains the detail to define, implement, and monitor the Client's investment strategy.

1.2 Investments are managed in accordance with applicable laws, trust documents, and written investment policy statements (IPS).

3.2 When safe harbors are elected, the investment strategy is implemented in compliance with the applicable safe harbor provisions.

## 5.3 Classification by Criteria

**1.3.3 All parties have acknowledged their status in writing.**

Advisors are ensuring that their fiduciary status is expressed in writing within their Service Agreements and Form ADV's. This is being done for all client types, including High Net Worth, and Trust. Advisors are taking steps to increase the display the fiduciary acknowledgement, rather than limiting it to liability disclaimers.

Fiduciary Advisors are using the Fi360 sample documentation including the Participant Policy Statement and the Arrangement Letters between the Advisor and the Plan Sponsor, and the Advisor and the Plan Participant.

Stewards are ensuring that investment committee members have acknowledged their fiduciary status in writing.

### **2.6.5 Each Client's IPS defines procedures for controlling and accounting for investment expenses.**

Advisors have taken steps to clearly articulate information regarding fees and expenses, within the IPS.

### **1.3.1 The roles and responsibilities of all parties are documented in the IPS.**

Advisors are specifically identifying the roles and responsibilities of the Custodian within the IPS.

### **1.2.3 Investments are managed in accordance with each client's written IPS.**

Advisors are implementing IPS's for smaller clients, including individual HNW, and IRA's. Advisors are also implementing methods to better monitor actual investments with IPS guidelines.

### **1.4.1 Policies and procedures for overseeing and managing potential conflicts of interests are defined.**

Investment Committee members are signing the Conflict of Interest policy statements on an annual basis. Disclosures of potential conflicts are being included in Service Agreements.

### **1.2.4 Documents pertaining to the investment management process are filed in a centralized location.**

Advisors are actively improving file management to ensure the availability of all documents, including service agreements, vendor agreements, and meeting minutes. In situations where the clients refuse investment review meetings, the refusals are being documented and kept on file.

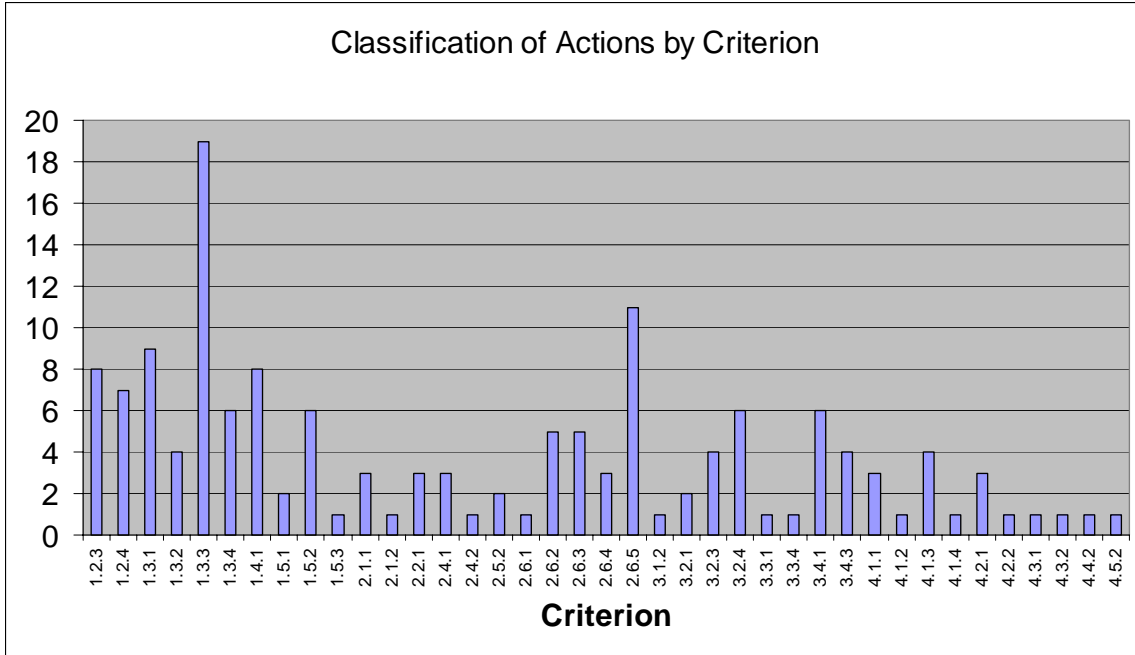


Table 2. Classification of Actions by criterion

## Part 2

### Verbatim Findings

In the table below, the Practices are shown in gray and the criteria in yellow. Findings as recorded by the Analyst are shown below each corresponding criteria.

Since the assessment can be a somewhat subjective process, it is useful to reference the verbatim comments below. Some findings may apply to multiple criteria, but have been classified under one to enable the creation of analysis charts.

CEFEX respects the confidentiality of the information obtained during the assessment process. The following results have been modified to remove the identity of the firms and comments which can be attributed to them.

<b>A-1.1</b>	<b>The Advisor demonstrates an awareness of fiduciary duties and responsibilities.</b>
<b>1.1.1</b>	<b>The fiduciary Practices and Procedures defined in this handbook are applied.</b>
<b>A-1.2</b>	<b>Investments are managed in accordance with applicable laws, trust documents, and written investment policy statements (IPS).</b>
<b>1.2.1</b>	<b>Investments are managed in accordance with all applicable laws.</b>
<b>1.2.2</b>	<b>Investments are managed in accordance with client trust documents.</b>
<b>1.2.3</b>	<b>Investments are managed in accordance with each client's written IPS.</b>
1.2.3	Review of the Candidate's client files reveals that an IPS is not on file for individual clients. An IPS should be on file for all client types covered under the scope of this certification.
1.2.3	In the Investment Policy Statement, monitoring criteria for investments defines a fiduciary score of "less than 25" as a goal for mutual funds used in a client's investment lineup. However, upon a review of the current investment products used, a large number of the funds exceed a fiduciary score of 25. This suggests an incompatibility between the IPS and the implementation of investment selection and monitoring.
1.2.3	The Candidate does not prepare an IPS for smaller wealth management clients
1.2.3	A procedure exists for the establishment of an IPS for every client. The IPS used by the Candidate prior to Nov 2006 did not include every measure suggested in the Standard. The Candidate should improve the IPS, as per the best practice.
1.2.3	The Candidate uses very good documentation to communicate investment goals and objectives to all of its clients. However, due to the large volume of IRA clients and the relative small asset size of those accounts, the Candidate does not prepare an individual IPS for each account holder. Ongoing, the Candidate should prepare an IPS for all clients covered under the scope of this certification.
1.2.3	The Candidate has no formal participant policy statements and should consider implementing them in individual counseling sessions with 401(k) plan participants.
1.2.3	While the Candidate currently maintains copies of investment policy statements ("IPS") in its files for its financial planning clients and its defined benefit clients, its procedures do not require it to retain an IPS for each of its 401(k) clients. The Candidate should revise its procedures in order to ensure that it retains an IPS for all client types, including its 401(k) plan clients.
1.2.3	Four client files in the sample group selected for on-site inspection did not contain an IPS. However, the Candidate has represented that all client files will have an IPS by the end of Sept 08.

**1.2.4 Documents pertaining to the investment management process are filed in a centralized location.**

- 1.2.4 Review of the Candidate's client files reveals that many key documents pertaining to client accounts are missing. Client files should be reviewed to ensure that each is complete
- 1.2.4 Many sampled clients do not have meeting dates or minutes. For clients who refuse to follow a meeting schedule, the best practice is to document that the client has refused a meeting (include name of manager, date, etc)
- 1.2.4 Currently, the Candidate's client files do not contain meeting minutes or any other evidence that a client meeting has been held. All client communication regarding fund lineup changes is generally handled by e-mail. In addition, the client files do not contain the trust documents applicable to a 401(k) plan client. The client files should be update to include this information.
- 1.2.4 The Candidate's current file system includes paper files and electronic files. The Candidate should consolidate client files, to the extent possible, to include all documentation relevant to managing that client account.
- 1.2.4 The Candidate's client files are centrally located. However, a sampling of client files reveals that certain key documents such as service agreements, vendor agreements and meeting minutes are missing from a few files.
- 1.2.4 A sampling of the Candidate's client files revealed that certain key documents are not being retained and they include (1) a record of the Candidate's most recent review meeting with the sampled clients and (2) evidence that the Candidate reviewed recently with the sampled clients its rebalancing of their accounts.
- 1.2.4 The review of client files revealed that many of the files did not contain agreements for the vendor relationships that clients may have in connection with their accounts (i.e. broker or insurance relationships). The Candidate should ensure that all client files contain the appropriate documentation related to each account.

**A-1.3 The roles and responsibilities of all involved parties (fiduciaries and non-fiduciaries) are defined, documented, and acknowledged.**

**1.3.1 The roles and responsibilities of all parties are documented in the IPS.**

- 1.3.1 The Candidate does not currently have a policy for reviewing its clients' Investment Policy Statements. This should be incorporated into its practices with the review interval not greater than twelve months between evaluations.
- 1.3.1 The Candidate's IPS does not define the duties of the custodian. The Candidate has already taken steps to modify its IPS. This information will be included in the revised IPS to be released summer of 2007.
- 1.3.1 The Candidate's IPS does not define the roles and responsibilities of the custodian.
- 1.3.1 The Candidate's IPS does not define the role of the Custodian.
- 1.3.1 The Candidate's IPS does not define the role of the Custodian.
- 1.3.1 The Candidate's IPS does not define the roles and responsibilities of the custodian. The Candidate's Investment policy Statement (IPS) for its defined contribution plan clients differs from its IPS for endowment clients and does contain certain information essential to the function of the investment committee. The IPS for defined contribution plan clients should be enhanced to include the following information: The duties and responsibilities of all fiduciaries to the plan, including the custodian, A definition of rebalancing guidelines, A more detailed definition of the monitoring criteria for investment options and service vendors, A definition of the procedure for controlling and accounting for investment expenses. The IPS should include a section dealing with Socially Responsible Investment strategies where applicable.
- 1.3.1 The Candidate's IPS does not define the roles and responsibilities of the custodian
- 1.3.1 The Candidate's 401(k) Plan Statement of Investment Policy includes a paragraph which contradicts the overall spirit and intent of the IPS.

**1.3.2 All parties demonstrate an awareness of their duties and responsibilities.**

- Advisor uses a document titled Self-Assessment of Fiduciary Excellence to define his policies and procedures as a Fiduciary Adviser. This document is similar to fi360's SAFE - Criteria for the Annual Audit of the Arrangement Between a Plan Sponsor and a Fiduciary Adviser, in that it defines his services for Plan Sponsors. It omits, however, detailed services for individual participants. The services for individual participants can be found in the Acknowledgment Letter to Plan Participant form, but for ease and clarification, I recommend that he include descriptions for Questions #19 through 36 of the SAFE in his policies and procedures document.
- 1.3.2 The Candidate needs to document that each trustee should acknowledge in writing that they have received their "Prudent Practices Handbook".
- 1.3.2 The organization does not have a Fiduciary Policies and Procedures manual. It is currently under development. The document should be completed as soon as possible.
- 1.3.2 The Candidate should amend its current engagement letter with plan sponsors to indicate that an annual audit of the Eligible Investment Advise Arrangement is required.

**1.3.3 All parties have acknowledged their status in writing.**

- 1.3.3 The Investment Committee has not signed the IPS
- 1.3.3 The members of the Candidate's investment committee have not acknowledged their fiduciary status in writing.
- 1.3.3 The investment committee has not acknowledged fiduciary status in writing
- 1.3.3 The Candidate clearly defines its fiduciary duties and responsibilities in its Form ADV. However, the word "fiduciary" is not mentioned. Although it is not required, as a best practice, I recommend using the word "fiduciary" in Form ADV.
- 1.3.3 The Candidate clearly defines its fiduciary duties and responsibilities in its Investment Advisory Agreements and Financial Planning Agreements for individuals and "clients other than individuals", however, the word "fiduciary" is only mentioned in regards to ERISA plans. Given the emerging industry awareness of the term "fiduciary," we recommend the explicit acknowledgement of fiduciary status, by using the term in the Agreements regarding individual engagements, as well as other client documents.
- 1.3.3 The Candidate clearly defines its fiduciary duties and responsibilities in its Form ADV and Investment Management Agreement. However, the word "fiduciary" is only mentioned in the Investment Management Agreement's liability disclaimer and retirement account information. Although it is not required, as a best practice, I recommend using the word "fiduciary" in Form ADV and in the Agreement's duties and responsibilities of the Advisor.
- 1.3.3 The Global Fiduciary Standard of Excellence requires Advisors to acknowledge their fiduciary status in writing. The Candidate's service agreements with its high net worth and personal trust clients does not currently include such an acknowledgment but should.
- 1.3.3 The Candidate does not discuss its fiduciary status in its service agreements with clients. Fiduciary status is disclosed in the client brochure. The service agreement should be updated to include disclosure of fiduciary responsibility.
- 1.3.3 The Candidate's current service agreement does not state that the Advisor is acting as a fiduciary under Section (3)(21) of ERISA and under the Investment Advisors Act of 1940.
- 1.3.3 Documentation exists at the Candidate that it communicates to its clients that they (the clients) are fiduciaries with respect to their own company qualified retirement plans. The Candidate's documentation fails to provide for an acknowledgement signature.
- 1.3.3 The Candidate does not discuss its fiduciary status in its service agreements with clients. Fiduciary status is disclosed in the client brochure. The service agreement should be updated to include disclosure of fiduciary responsibility.
- 1.3.3 Under proposed DOL regulation 408(b)(2) (the "Regulation"), service providers to ERISA plans will be required to acknowledge their fiduciary status in their service agreements with their clients. Currently, the Candidate's clients are receiving co-fiduciary services from the Candidate. Such services are documented clearly in the Candidate's marketing materials and the Investment Policy Statements of the Candidate's clients. However, the Candidate's co-fiduciary status is not currently documented in its service agreements. Consequently, the Candidate should acknowledge its fiduciary status in its service agreements before the effective date of the Regulation.

- The Candidate's current service agreement does not contain any language naming the Candidate as a fiduciary to the plan. However, the Candidate does claim fiduciary responsibility in other documentation presented to the client. To comply with proposed DOL regulation 408(b)(2), the Candidate will need to change its service agreement to reflect fiduciary acknowledgement. The Candidate's legal counsel is currently working on preparing a new service agreement that will comply with 408(b)(2).
- 1.3.3 Upon review of the Candidate's service agreement in light of proposed DOL regulation 408(b)(2), it appears that the agreement is lacking language regarding the Candidate's acknowledgement of fiduciary responsibility in the case of a qualified plan. The Candidate should revise its service agreement to reflect the new requirements under 408(b)(2).
- 1.3.3 The Candidate does not have a participant policy statement.
- 1.3.3 The Candidate intends to use the document templates provided by Fi360 for the Participant Policy Statement, the Arrangement letter between the Fiduciary Adviser and the Plan Sponsor, and the Acknowledgement Letter, Fiduciary Adviser to Plan Participant. However, at the date of this report the Fi360 documents have not been adopted by the Candidate. The Candidate should officially adopt these documents before engaging any clients.
- 1.3.3 The Candidate should create one document that presents all of the disclosure information required of ERISA 408(g). This document should be clear and in a format that is easily read and understood by plan participants.
- 1.3.3 The Candidate should update its ADV Part II to reflect the steps outlined in the conflicts disclosure procedure memo.
- 1.3.3 The Candidate's service agreement does not state that the Candidate will be acting as a fiduciary in performing services under the agreement.
- 1.3.4 The investment committee has and follows a defined set of by-laws.**
- 1.3.4 The investment committee does not operate under a set of bylaws.
- 1.3.4 The Candidate's Investment Committee does not operate under formal bylaws. The Candidate should create a set of bylaws in order to establish formal written guidelines for the activity of the investment committee.
- 1.3.4 The Candidate's Investment Committee does not operate formally under a set of bylaws. The Candidate should create a set of bylaws in order to formalize the activity of the investment committee.
- 1.3.4 The Candidate acknowledges a co-fiduciary relationship with its clients in a document entitled the Fiduciary Roadmap which is signed by both parties. However, the client does not make this acknowledgement in its service agreement with the client. The service agreement should be updated to include this acknowledgement as well as a disclaimer of its role as a fiduciary under Section (3)(21) of ERISA and under the Investment Advisors Act of 1940.
- 1.3.4 The Candidate's Investment Committee is a standing committee of four members. However, the committee does not operate formally under a set of bylaws. The Candidate should create a set of bylaws in order to formalize the activity of the investment committee
- 1.3.4 The Candidate's investment committee does not operate under a set of bylaws.
- A-1.4 The Investment Advisor is not involved in self-dealing.**
- 1.4.1 Policies and procedures for overseeing and managing potential conflicts of interests are defined.**
- 1.4.1 The Plan Sponsor's investment committee does not have a written conflict of interest policy in place. Conflicts are currently monitored informally. Each member of the investment committee should be required to sign a conflicts of interest policy annually.
- 1.4.1 The Plan Sponsor's investment committee does not have a written conflict of interest policy in place. Conflicts are currently monitored informally. Each member of the investment committee should be required to sign a conflicts of interest policy annually.
- 1.4.1 The Candidate's investment committee does not have a written conflict of interest policy in place. Conflicts are currently monitored informally but lack defined guidelines. The members of the investment committee should be required to sign a conflicts of interest policy annually.
- 1.4.1 The appearance of a conflict of interest exists between the Candidate and it's owner firm. A disclosure must be provided in the arrangement letter with the plan sponsor client. (NCR)
- 1.4.1 Ideally the Conflict with the related fund should be removed. If this relationship is to continue, then the fund must undergo the same level of due diligence as other funds, and the Candidate's

documents must disclose the extent of involvement with the fund, including shareholding and personal involvement.

The Candidate's service agreement does not contain language dealing with potential conflicts of interest. Language should be added to the service agreement that complies with proposed DOL regulation 408(b)(2) regarding potential conflicts of interest disclosure. Items addressed should include the Candidate's internal conflicts of interest policy, potential material relationships with other firms in the Candidate's corporate family, and any existing referral relationships that the Candidate may have.

1.4.1

The Candidate's current service agreement does not contain any language dealing with potential conflicts of interests in the way it delivers services to its clients. To comply with proposed DOL regulation 408(b)(2), the Candidate will need to change its service agreement to reflect conflicts of interest. The Candidate's legal counsel is currently working on preparing a new service agreement that will comply with 408(b)(2).

1.4.1

The Candidate's service agreement does not contain any language dealing with potential conflicts of interest. In light of it's affiliation, language should be added to the service agreement that complies with proposed DOL regulation 408(b)(2) regarding potential conflict of interest disclosure.

1.4.1

**1.4.2 All employees annually acknowledge the ethics policies of the Investment Advisor's organization and agree to disclose any potential conflicts of interest.**

**A-1.5 Service agreements and contracts are in writing, and do not contain provisions that conflict with fiduciary standards of care.**

**1.5.1 Agreements and contracts are periodically reviewed to ensure consistency with the needs of the Client.**

1.5.1 Recommend more thorough documentation of periodic reviews of other potential investment platforms.

The Candidate does not have in its files a copy of the custodian's agreement that is in force for its advisory clients. This restricts its ability to ensure that the custodian's services are consistent with the needs of its clients ongoing. The Candidate should maintain an active file of custodian agreements.

1.5.1

**1.5.2 Agreements and contracts are periodically reviewed by legal counsel.**

1.5.2 Legal council does not periodically review the Organization's contracts and agreements.(IS)  
1.5.2 The Candidate should establish new Investment Advisory service agreements for individual and qualified plans.

1.5.2

1.5.2 The Candidate does not currently require that agreements and contracts be reviewed by legal counsel on a regular basis.

1.5.2

Letter between fiduciary adviser and plan sponsor and between fiduciary adviser and participant required under ERISA Section 408(g)(6) have been created but are being reviewed by legal counsel. The organization should complete the legal review of these documents and begin using them in its participant advice arrangement.

1.5.2

1.5.2 The Candidate does not have an ERISA 408(g)(6) disclosure statement or a procedure for providing it to participants. (NCR)

1.5.2

1.5.2 The Candidate does not have an ERISA 408(g)(6) disclosure statement or a procedure for providing it to participants.

1.5.2

**1.5.3 Consideration is given to putting vendor contracts back out for bid every three years.**

1.5.3 The Candidate's current service agreements are missing critical elements required by proposed Department of Labor regulation 408(b)(2). Should such regulation become effective, the Candidate's service agreements with its clients should be enhanced to include language regarding its fiduciary status and compensation arrangements with any of its affiliates.

1.5.3

**A-1.6 Assets are within the jurisdiction of appropriate courts, and are protected from theft and embezzlement.**

**1.6.1 Assets are within the purview of the relevant judicial system.**

**1.6.2 ERISA fiduciaries have the required surety bond.**

**A-2.1 An investment time horizon has been identified for each Client.**

2.1.1	Sources, timing, distribution, and uses of each Client's cash flows are documented for the coming five years.
2.1.1	The Candidate's client files do not contain sufficient documentation to support the preparation of cash flow analyses for its client business.
2.1.1	During a sampling of the Candidate's client files the Assessment Analyst observed that some of the Candidate's files lack evidence of recent cash flow analyses.
2.1.1	The Candidate provided cash flow information, but the information was not detailed and was only projected for the most recent 12 month period. Projections were not available.
2.1.2	In the case of a defined benefit retirement plan Client, the appropriate asset/liability study has been factored into the time horizon.
2.1.2	A pension plan is well funded when it has sufficient assets invested to meet all expected future obligations to participants. The greater the level of funding, the larger the ratio of assets to actuarial accrued liability. However, there appears to be a troubling trend in the defined benefit plan's funded status. The candidate should provide evidence over the next twelve months that the process in place to correct the funding deficiency is being closely monitored and adjusted as necessary given adverse market conditions.
2.1.3	In the case of a foundation or endowment, the receipt and disbursement of gifts and grants has been factored into the time horizon.
2.1.4	In the case of a retail investor, the appropriate needs-based analysis has been factored into the time horizon.
2.1.5	Sufficient liquid assets for contingency plans are maintained.
<b>A-2.2</b>	<b>A risk level has been identified for each Client.</b>
2.2.1	The level of risk the Client's portfolio is exposed to is understood, and the quantitative and qualitative factors that were considered are documented.
2.2.1	The Candidate should consider using an investor risk profile to allow additional client input to determine risk tolerance and ultimately the appropriate investment model
2.2.1	There are no shortcuts to giving advice to Participants. To meet the requirement for holistically advising individuals on investments, the sole use of the current computer-generated Target Retirement Letter (TRL) is not sufficient. Therefore, I recommend you use the current computer-generated TRL in conjunction with the Participant's Risk Tolerance Quiz and the Participant Policy Statement.
2.2.1	It did not appear that in non participant directed accounts that Disclosure of Expected Return, Standard Deviation and 1-Year Modeled Loss was being disclosed to the client in their Investment Policy Statement or any other disclosure. The information is available in internal documentation of each model portfolio through the firms's internal optimizer.
2.2.2	A "worst-case" scenario has been considered, and it has been determined that the portfolio has sufficient liquidity to meet short-term (less than five years) obligations.
<b>A-2.3</b>	<b>An expected, modeled return to meet investment objectives has been identified.</b>
2.3.1	The "expected" or "modeled" return for each Client is consistent with the Client's investment 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 used for actuarial calculations are reasonable.
<b>A-2.4</b>	<b>Selected asset classes are consistent with the identified risk, return, and time horizon.</b>
2.4.1	Assets are appropriately diversified to conform to each Client's specified time horizon and risk/return profile.

2.4.1	The Candidate's current investment policy statement should be enhanced to include a target asset allocation for the plan's investment platform.
2.4.1	The Candidate's current investment policy statement should be enhanced to include a target asset allocation for the plan's investment platform.
2.4.1	The Candidate's current investment policy statement should be enhanced to include a target asset allocation for the plan's investment platform.
2.4.2	<b>For participant directed plans, selected asset classes provide each participant the</b>
2.4.2	The Statement of Investment Policy is silent toward International and/or Foreign investment choices (on pages 3 and/or 4) as selected investment options listed under the heading of "Investment Choices" (page 3). Since the plan offers investments in securities that are domiciled outside of the United States it would be prudent to update the Investment Policy Statement with the appropriate asset class(es).
2.4.3	<b>The methodology and tools used to establish appropriate portfolio diversification for each Client are effective and consistently applied.</b>
A-2.5	<b>Selected asset classes are consistent with implementation and monitoring constraints.</b>
2.5.1	<b>The Advisor has the time, inclination, and knowledge to effectively implement and monitor all selected asset classes for each Client.</b>
2.5.2	<b>The process and tools used to implement and monitor investments in the selected asset classes are effective.</b>
2.5.2	The Candidate's 401(k) has an unusually low participation rate and balances are also low. This is due to a large concentration of participants in the oil and gas field. These types of employees do not generally participate in 401(k) plans. The Candidate expressed during this assessment a new effort in place to attract gray and blue collar workers in an effort to boost participation rates. This process should be documented and reviewed to determine whether participation rates rise as a result.
2.5.2	The Candidate has an unusually low participation rate and balances are also low. Efforts should continue to implement an auto enrollment feature with those clients whose employee population is slow to enroll.
2.5.3	<b>The ability to access suitable investment products within all selected asset classes has been considered.</b>
A-2.6	<b>There is an IPS which contains the detail to define, implement, and monitor the Client's investment strategy.</b>
2.6.1	<b>Each Client's IPS defines the duties and responsibilities of all parties involved.</b>
2.6.1	The Candidate's IPS does not contain a section that deals with rebalancing. The Candidate does, however, have a written rebalancing policy. The Candidate should incorporate this rebalancing policy onto the IPS to satisfy criteria 2.6.1
2.6.2	<b>Each Client's IPS defines diversification and rebalancing guidelines consistent with specified risk, return, time horizon, and cash flow parameters.</b>
2.6.2	The Candidate should incorporate its rebalancing guidelines into the IPS. Some asset classes are being used that are not specified in the IPS. The allocation should be in line with what has been authorized in the IPS. The Candidate should demonstrate that attribution analysis is being performed along with the tactical rebalancing that is being used to achieve performance goals.
2.6.2	The Candidate's IPS for individuals and foundations/endowments is very comprehensive and includes all of the requirements under this practice and these criteria. The IPS used for retirement plans does not include the level of detail required under practice 2.6. The Candidate should consider revising its current IPS for retirement plan clients to include diversification and rebalancing guidelines, the due diligence criteria for selecting investment options, the criteria for monitoring investment options and service providers, and procedures for controlling and accounting for investment expenses.

Since becoming an AIFA , the Candidate has used an updated Statement of Investment Policy for all new clients. This new IPS incorporates all of the measures required by FI360 and also complies with the standards of CEFEX. During the field study, while viewing the files of some accounts, it was noticed that there are still some accounts which have the old IPS document. (The old IPS fails to meet the requirements in the areas of Liquidity, Objectives, Rebalancing and the measures of Modern Portfolio Theory.)

- 2.6.2 The IPS does not define diversification and rebalancing guidelines consistent with specified risk, return, time horizon, and cash flow parameters. (IS)
- 2.6.3 Each Client's IPS defines the due diligence criteria for selecting investment options.**  
Most 401k plan files reviewed contained signed IPS but were from 2002 and before. As the Master IPS' have been updated by the Investment Committee, the older clients have not had their IPS' updated. It does appear that the newer criteria, etc. are being used for all plan.
- 2.6.3 Documentation is missing from files.
- 2.6.3 The Candidate's IPS does not define the due diligence process taken to select the investment options. The Candidate does have a written due diligence process that is not currently part of the IPS
- 2.6.3 The Candidate's IPS does not define the due diligence criteria used for selecting investment options  
2.6.3 The Candidate's IPS does not currently document the due diligence process for selecting investment options.
- 2.6.4 Each Client's IPS defines the monitoring criteria for investment options and service vendors.**  
The Candidate should periodically review the documentation its clients produce in order to ensure that they are executing the monitoring criteria defined in their respective Investment Policy Statements. The Candidate does not currently do so.
- 2.6.4 The Candidate has a process in place for monitoring investment options and service vendors but it is not documented in the IPS.
- 2.6.4 The Candidate's IPS does not currently document the monitoring criteria for investment options and service providers.
- 2.6.5 Each Client's IPS defines procedures for controlling and accounting for investment expenses.**  
Each client's IPS does not define procedures for controlling and accounting for investment expenses.  
2.6.5 The IPS should be updated to reflect this information.
- 2.6.5 The IPS does not define procedures for controlling and accounting for investment expenses. (IS)  
Each client's IPS does not define procedures for controlling and accounting for investment expenses.  
2.6.5 The IPS should be updated to reflect this information.
- 2.6.5 The Candidate's IPS does not define procedures for controlling and accounting for investment expenses. The Candidate has already taken steps to modify its IPS. This information will be included in the revised IPS to be released summer of 2007.
- 2.6.5 The Candidate's IPS does not define procedures for controlling and accounting for investment expenses.  
Each client's IPS does not define procedures for controlling and accounting for investment expenses.  
2.6.5 The IPS should be updated to reflect this information.
- 2.6.5 The Candidate's IPS does not define procedures for controlling and accounting for investment expenses.  
2.6.5 The Candidate's IPS does not define procedures for controlling and accounting for investment expenses.  
2.6.5 The Candidate's IPS should be amended to include language that deals more specifically with controlling and accounting for investment expenses  
2.6.5 The Candidate's IPS should include more information regarding the process of monitoring and controlling investment and other plan related expenses.
- 2.6.5 The IPS discusses performance guidelines net of fees but does not define procedures for controlling and accounting for investment expenses. Investment Stewards must establish procedures for controlling and accounting for investment expenses in order to fulfill the obligation to manage investment decisions with the requisite level of care, skill, and prudence; and to fulfill the specific obligation of the fiduciary to pay only reasonable and necessary expenses. The IPS should be

modified to define such procedures.

A-2.7	<b>The IPS defines appropriately structured, socially responsible investment (SRI) strategies (where applicable).</b>
2.7.1	Each Client's goals and objectives have been evaluated to determine whether socially responsible investing is appropriate and/or desirable.
2.7.2	If a Client has elected to implement a socially responsible investment strategy, the Client's IPS is appropriately structured, implemented, and monitored.
A-3.1	<b>Each Client's investment strategy is implemented in compliance with the required level of prudence.</b>
3.1.1	A due diligence procedure for selecting investment options exists.
3.1.2	The due diligence process is consistently applied.
3.1.2	Based on client sampling, the candidate was not consistent in documenting all annual review minutes. The Candidate has an acceptable review template to be used for future reviews. Of the 18 client files sampled, only 2 had deficiencies.
A-3.2	<b>When safe harbors are elected, the investment strategy is implemented in compliance with the applicable safe harbor provisions.</b>
3.2.1	<b>Applicable safe harbor requirements pertaining to the delegation of investment responsibility are implemented properly, when elected.</b>
3.2.1	The Candidate recently acquired fiduciary clients in a business combination. Its effort to assure that each such client's safe harbor provisions are being followed was in progress at the time of the Assessment. While its longer term clients' safe harbor compliance activities show oversight on the part of the Candidate, it is premature to determine if this is also true of its recently acquired business. The Candidate should document that each trustee is aware of the risks associated with not taking safe harbor.
3.2.2	<b>Applicable 404(c) safe harbor requirements are implemented properly, when elected.</b>
3.2.3	<b>Applicable Fiduciary Adviser safe harbor requirements are implemented properly, when elected.</b>
3.2.3	The Candidate does not currently offer services as a Fiduciary Adviser to 401(k) plan participants under the pension protection Act of 2006. The Candidate is exploring this as a possible service offering in 2007. Demonstration of the proposed terms and conditions of the Eligible Investment Advice Arrangement agreement that the Candidate's plan sponsor clients would be required to execute was not available to the Analyst during the Assessment. Should the Candidate offer services as a Fiduciary Adviser such agreement would need to be developed by legal counsel and used in the Candidate's engagements.
3.2.3	The Candidate should notify all company plans of safe harbor protections.
3.2.3	The Candidate currently provides its defined contribution clients with an advisory service to participants very similar to that defined in the Pension Protection Act of 2006 (PPA) as an Eligible Investment Advice Arrangement (EIAA). In order to ensure that its clients do not miss the opportunity to enjoy the PPA's Fiduciary Adviser "safe harbor," it is recommended that the candidate have its service reviewed to confirm that it qualifies as an EIAA under the PPA.
3.2.3	The Candidate should have its clients' Eligible Investment Advice Arrangements audited for compliance with the PPA.
3.2.4	<b>Applicable qualified default investment alternative (QDIA) requirements are implemented properly, when elected.</b>
3.2.4	The Candidate does not currently offer a qualified default investment alternative ("QDIA") to clients who would like to qualify for the QDIA safe harbor under the Pension Protection Act of 2006. The Candidate is currently using a stable value fund as a default option which may not be appropriate for younger investors. The primary plan provider is close to adding age-based default options. The Candidate should also be contacting all defaultees annually of their default choice. Should add age-
3.2.4	

based default ASAP.

- 3.2.4 The Candidate should demonstrate a process that ensures that qualified plans that may benefit from additional safe harbor protection under the PPA are made aware of the opportunity. This would include the Qualified Default Investment Alternative (QDIA) and the Fiduciary Advisor.
- 3.2.4 It is the Candidate's intention to fully comply with the alternative default investment alternative safe harbor. However, the plan does not comply at this time.
- 3.2.4 The Pension Protection Act of 2006 (PPA) provides fiduciaries with protection under ERISA section 404(c)(5) from losses that result from investing a defaulted participant's account. The fiduciary protection afforded by the Qualified Default Investment Alternatives, or QDIA, regulation is commonly called a "safe harbor" and that term is used in this document. The Candidate has not yet adopted the QDIA safe harbor. If the Candidate does not intend to qualify for it, then the reason for its decision should be documented and included in the Candidate's fiduciary file.
- 3.2.4 The Pension Protection Act of 2006 (PPA) provides fiduciaries with protection under ERISA section 404(c)(5) from losses that result from investing a defaulted participant's account. The fiduciary protection afforded by the Qualified Default Investment Alternatives, or QDIA, regulation is commonly being called a "safe harbor" and that term is used in this document. The Candidate has not yet adopted the QDIA safe harbor. If the Candidate does not intend to qualify for it, then the reason for its decision should be documented and included in the Candidate's fiduciary file.

**A-3.3 Investment vehicles are appropriate for the portfolio size.**

**3.3.1 Decisions regarding passive and active investment strategies are documented and appropriately implemented.**

3.3.1 The Candidate has appropriately implemented decisions regarding passive and active investment strategy. However, the decisions have not been documented.

**3.3.2 Decisions regarding the use of separately managed and commingled accounts, such as mutual funds and unit trusts, are documented and appropriately implemented.**

3.3.3 Regulated investment options are selected over unregulated options when comparable risk and return characteristics are projected.

**3.3.4 Investment options that are covered by readily available data sources are selected over similar alternatives for which limited coverage is available.**

3.3.4 The Candidate currently has some sub advised funds in place. Sub advised funds are not as easily monitored as mutual funds. The Candidate should consider and document the reasons for using sub advised funds in place of mutual funds. The Candidate should also consider the appropriateness of these investment vehicles for a retirement plan and document its considerations accordingly.

**3.3.5 In the case of wrap or sub-accounts, the portfolio's return is comparable to the**

**A-3.4 A due diligence process is followed in selecting service providers, including the custodian.**

**3.4.1 A documented due diligence process is applied to select the custodian and all other service providers.**

3.4.1 Recommend that the firm develop review procedures of platform provider's evaluation process of alternative investment managers.

3.4.1 The Candidate periodically reviews alternative service providers as part of its everyday corporate culture. However, the Candidate does not have a written policy for putting vendor contracts out to bid every three years.

3.4.1 The Candidate occasionally compares the current service providers with other providers in the industry on an informal basis. The Candidate should document this process and retain in the investment committee files.

3.4.1 The Candidate uses an ongoing due diligence process to select service providers to the plan. The process has not been documented.

3.4.1 The Candidate does not have documentation regarding the due diligence related to the selection of the current service providers. A process was used but not adequately documented. The past process should be documented as well as any future due diligence related to service provider monitoring and

selection.

The Candidate does not have documentation regarding the due diligence related to the selection of the current service providers. A process was used but not adequately documented. The past process should be documented as well as any future due diligence related to service provider monitoring and selection.

3.4.1

3.4.2 Each custodian has appropriate and adequate insurance to cover each Client's portfolio amount.

3.4.3 An appropriate sweep money market fund is selected.

3.4.3 The expense ratio of the money market sweep vehicle appears high at .75bps. A sweep vehicle with a lower expense ratio should be considered.

3.4.3 The expense ratio of the money market sweep vehicle appears high at .75bps. A sweep vehicle with a lower expense ratio should be considered.

3.4.3 The expense ratio of the money market sweep vehicle appears high at .63bps. A sweep vehicle with a lower expense ratio should be considered.

3.4.3 The expense ratio of the money market sweep vehicle appears high at .64bps. A sweep vehicle with a lower expense ratio should be considered.

3.4.4 An inquiry has been made as to whether each custodian can facilitate performance reporting and year-end tax statements.

A-4.1 Periodic reports compare investment performance against appropriate index, peer group, and IPS objectives.

4.1.1 The performance of each investment option is periodically compared against an appropriate index, peer group, and due diligence procedures defined in each Client's IPS.

4.1.1 The Candidate's investment committee currently meets formally once per year with informal meetings periodically during the year. The investment committee should meet to review investment performance and other plan related topics more frequently and document each meeting accordingly. The Candidate provides a quarterly performance report to their clients. This report includes a comparison of the actual portfolio returns to index benchmarks, as well as other overviews, however, it is lacking a peer group comparison of actual portfolio returns. I suggest that a peer group comparison of returns be provided quarterly, along with the index benchmarks, without the client having to request one.

4.1.1 The company should implement more current benchmarks for use in evaluating the performance of its asset classes.

4.1.2 The information that is provided in performance reports is relevant to each Client's circumstances.

4.1.2 The Candidate has indicated that statistical information regarding number of clients per investment option is not maintained. This data should be retained in order to fully demonstrate that the information that is provided in performance reports is relevant to each Client's circumstances.

4.1.3 "Watch list" procedures are followed for underperforming investment options.

4.1.3 At 6%, the number of client assets in watchlist 4 category funds is cause for concern. The Candidate should show support for the recommendation of these funds to its clients, or state why they are maintained.

4.1.3 Due to the fact that assets under advisement are held at many different custodians, the Candidate does not currently have a system for compiling client assets by investment. The Candidate should implement a system for tracking client assets by investment.

4.1.3 The assessment revealed an increase in the number of funds with fiduciary scores greater than 75. The Candidate should document the use of these funds in spite of their watch list four status. Evidence should be made available that reconciles the use of these funds with the new monitoring criteria established as a result of OFI #1.

4.1.3 Some investments used in client portfolios where the Candidate has input on investment selection, are on Watch List 4 status, as reported by Fiduciary Analytics software. Benchmarks assigned by software programs have limitations. FA benchmarks are assigned by Morningstar. There are cases where Morningstar does not always assign the most representative benchmark for a fund.

4.1.4	Rebalancing procedures are followed.
4.1.4	The Candidate follows appropriate rebalancing procedures. They have not been documented in the IPS.
A-4.2	Periodic reviews are made of qualitative and/or organizational changes of investment decision-makers.
4.2.1	Periodic evaluations of the qualitative factors which may impact selected money managers are periodically evaluated.
4.2.1	The Candidate does not have a written policy to conduct periodic evaluations of the qualitative factors that may impact the selection of money managers used by the Candidate in client accounts. During the Assessment, the Candidate showed evidence that it periodically evaluates such qualitative factors but does not consistently document its actions. A written record of the evaluations should be recorded as they are conducted.
4.2.1	The Candidate does not have a written policy to conduct periodic evaluations of the qualitative factors that may impact the selection of money managers used by the Candidate in client accounts. During the Assessment, the Candidate showed evidence that it periodically evaluates such qualitative factors but does not consistently document its actions. A written record of the evaluations should be recorded as they are conducted.
4.2.1	The Stable Value Fund investment appears to hold single-issuer positions (as represented on both a March 31, 2008 statement from the custodian, and a August 31, 2008 "Holdings List") that are in excess of the size permitted within the Fund - Offering Statement (dated July 1, 2006). Three of the issuers appear to have fund positions which are in excess of the permitted maximum-by-issuer (15%) that is described within the Diversification section (page 4) of the Offering Statement.
4.2.2	Unsatisfactory news regarding an Investment Manager is documented and acted on in a timely manner.
4.2.2	Unsatisfactory news regarding investment managers is documented and acted upon by using a six month watch list. The advisor should revise their procedure that allows for a more immediate response time.
A-4.3	Control procedures are in place to periodically review policies for best execution, "soft dollars," and proxy voting.
4.3.1	Control procedures are in place to periodically review each separate account manager's policies for best execution.
4.3.1	The Candidate revealed that it does not have its own policy for reviewing the fixed income separate account manager's policy for best execution and soft dollars.
4.3.2	Control procedures are in place to periodically review each separate account manager's policies for "soft dollars."
4.3.2	The Candidate has a detailed, well written investment policy guideline that deals specifically with the managers of the separate accounts. However, it does not appear that written control procedures are in place to periodically review policies for "soft dollars". In practice, soft dollars are being monitored. The monitoring procedures are not documented but should be. In addition, an examination should be conducted to determine whether the soft dollar approach is better for the plan's participants than to pay outright for the services.
4.3.3	Control procedures are in place to periodically review each separate account manager's policies for proxy voting.
A-4.4	Fees for investment management are consistent with agreements and with all applicable laws.
4.4.1	A summary of all parties being compensated from each Client's portfolio has been documented, and the fees are reasonable given the level of services rendered.
4.4.2	The fees paid to each party are periodically examined to determine whether they are consistent with service agreements.
4.4.2	Advisor uses a document titled <u>Fees and Costs</u> to itemize the various fees charged directly against Participants account balance. Below are two recommendations to this document: 1. it should be made easier to understand

for Participants, and 2. the use of tables and estimated total fees are good practices.

4.4.3	The fees being paid for various services are periodically evaluated for reasonableness.
A-4.5	<b>“Finder’s fees” or other forms of compensation that may have been paid for asset placement are appropriately applied, utilized, and documented.</b>
4.5.1	All parties compensated from portfolio assets have been identified, along with the amount (or schedule) of their compensation.
4.5.2	Compensation paid from portfolio assets has been determined to be fair and reasonable for the services rendered.
4.5.2	Currently the Candidate relies upon the form 5500 as its source of provider fee disclosure. This process should be enhanced to include a more comprehensive review of plan fees in light of their reasonableness and consistency with service agreements.
A-4.6	<b>There is a process to periodically review the organization’s effectiveness in meeting its fiduciary responsibilities.</b>
4.6.1	Operational effectiveness is periodically reviewed to foster continued improvement.
4.6.2	Assessments are conducted at planned intervals to determine whether (a) appropriate policies and procedures are in place to address all fiduciary obligations, and (b) such policies and procedures are effectively implemented and maintained, and (c) the IPS is up-to-date.
4.6.3	Assessments are documented, conducted in a manner that ensures objectivity and impartiality, and results are reviewed for reasonableness.