

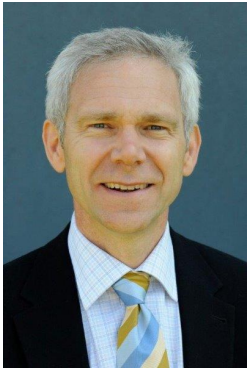
The logo is centered within a white square frame. The text 'Fi360' is white and set against a solid orange background.

Fi360

A Broadridge® Company



**CEFEX Virtual General Meeting 2020**  
**Welcome!**  
**May 18 and 19, 2020**



Carlos Panksep  
VP, CEFEX

[Carlos.Panksep@fi360.com](mailto:Carlos.Panksep@fi360.com)

416-693-9733

# Today's Objectives

Update on CEFEX

Sample the topics which are relevant to CEFEX certified firms

Generate questions

Offer suggestions on how to best serve end investors:

Individuals

Retirement plans and participants

Non-profits: foundations, endowments and donors

Governments and taxpayers

Tribal Nations and beneficiaries

# CEFEX Services

## **Certification**

Remote annual assessments to demonstrate adherence to a Standard of Practice  
ISO-like process

## **Fiduciary Assessments**

One-time assessments to help advisors prospect new clients  
Identify opportunities for improvement at Steward

## **Fiduciary Training for Nonprofit Leaders**

4 hour program to help advisors build relationships and stimulate fiduciary  
assessments

# Agenda

Tuesday, May 19, 2020

Time	Topic	Speaker
11:00 AM	Introduction	Carlos Panksep, VP CEFEX
11:05 AM	CEFEX Assessment Data Update	Matt Boyle, Director Operations, CEFEX
11:15 AM	TPA Marketplace Update	Richard Carpenter, CEFEX Analyst
11:25 AM	Prudent Practices in Litigation	Roger Levy, CEFEX Analyst
11:45 AM	Veriphy Analysis in CEFEX Assessments	Al Otto, President and CEO, Veriphy Analytics
12:05 PM	Dimensional's Fiduciary Resource Guide	Tim Kohn & David Campbell, Dimensional Ian Kopelman, DLA Piper
12:20	Adjourn	

# CEFEX Assessment Data Reports

## CEFEX Assessment Data Report

Recordkeepers and Third-Party Administrators



3 Penn Center West  
Suite 400  
Pittsburgh, PA 15276  
412-504-0703



## CEFEX Assessment Data Report

Investment Advisors



3 Penn Center West  
Suite 400  
Pittsburgh, PA 15276  
412-504-0703



# Investment Advisor Data Reports

- Data is derived from CEFEX assessments of a maximum of 141 firms (U.S. and international) as of 2/5/2020
- Types of clients served
- Asset Growth
- Investment Strategies
- Investment Philosophy
- Use of Target Date Funds
- Safe Harbors
- Data Security
- Advisor Background

Exhibit 9: Active or Passive Management

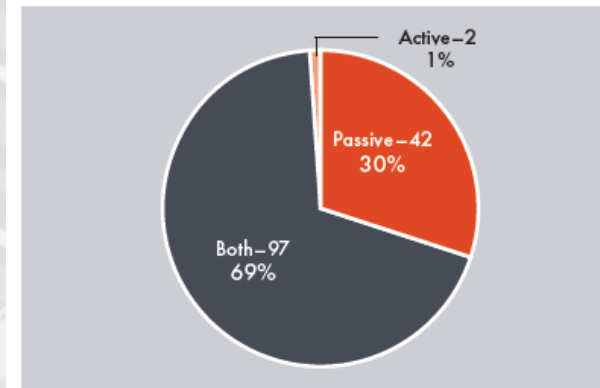


Exhibit 10: Target Date Funds

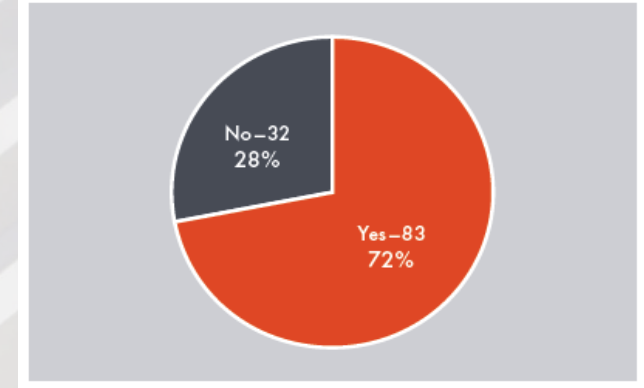


Exhibit 17: Regulatory Examination

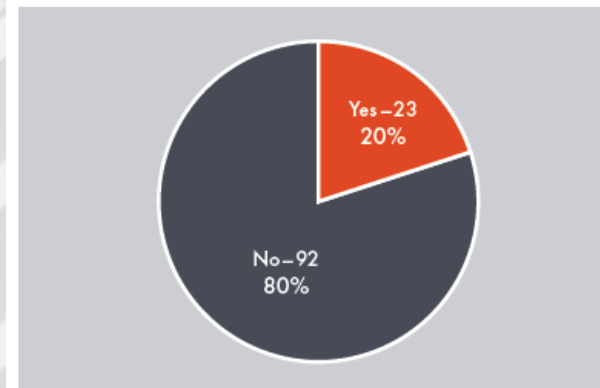
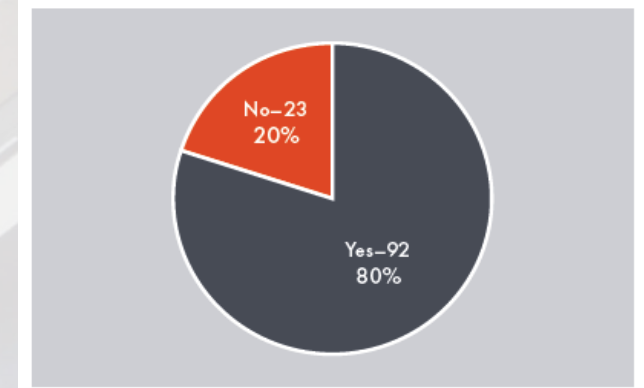


Exhibit 23: Cyber Insurance Policy



# Service Provider Data Reports (Recordkeepers/TPAs)

- Data is derived from CEFEX assessments of 58 firms as of 1/23/2020
- Background
- Plans serviced
- Employee changes
- Business changes
- Operations
- ERISA 3(16) Services
- Revenue Sharing Management
- Data Security

Exhibit 3: Average Number of Plans Serviced

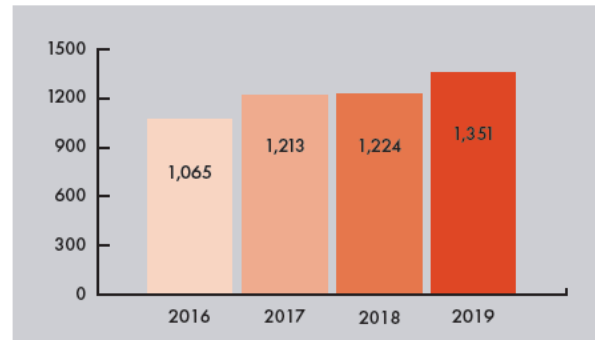


Exhibit 4: Average Plan Growth

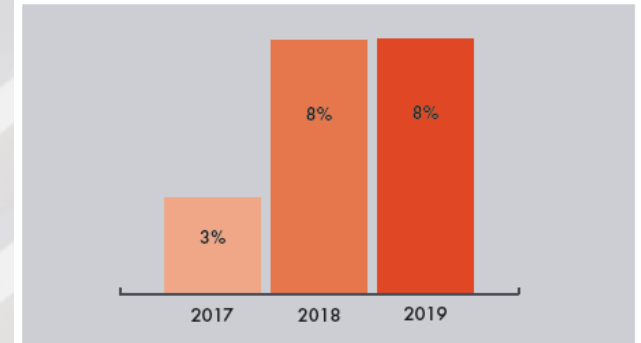


Exhibit 10: Formal Satisfaction Monitoring Program

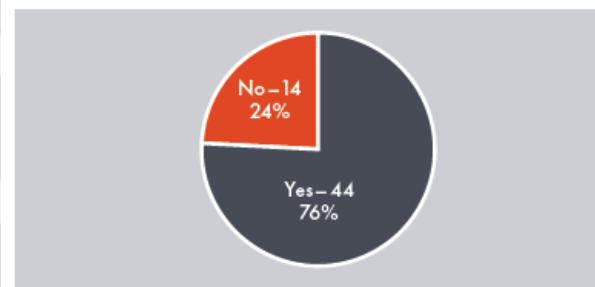
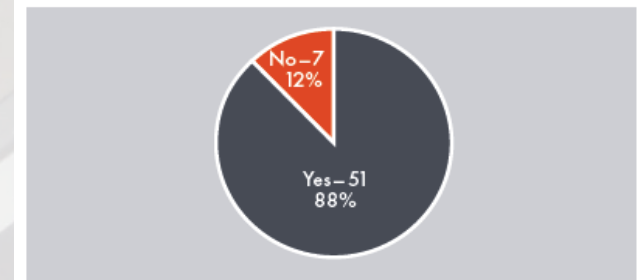


Exhibit 11: Measure Results vs. Objectives






# Where to Find Them

Home
Investment Steward
Investment Advisor
Investment Managers
Recordkeepers & TPAs
Registrations
myCEΦEX

CEΦEX<sup>®</sup>  
CENTRE FOR FIDUCIARY EXCELLENCE
Clients Records ▾
eCafe List
Marketing Materials
Reports ▾
Administration ▾
Settings (mboyle) ▾
Logout



The **CEΦEX Mark** is reserved for certified advisory firms. These firms have demonstrated their adherence to the Global Fiduciary Standard of Excellence.

## WELCOME TO THE myCEΦEX PORTAL

**Registration and Assessment Pages**

To access the General Information Pages for your firm, please [click here](#).

**Marketing Material**

We applaud your firm's demonstrated adherence to high fiduciary standards and welcome you to the elite community of CEΦEX certified firms. Your commitment to fiduciary excellence makes your firm unique and should be shared with your clients, prospects and stakeholders!

Below you will find marketing materials to help your firm promote your CEΦEX certification. To help navigate the material, we have organized your content into four tabs.

**Branding** includes: CEΦEX logos, certified Mark, and guidelines for use  
**Accomplishment** includes: Specific content and image for your firm  
**Announcement** includes: Marketing templates to publicize your CEΦEX certification  
**Ongoing** includes: Marketing materials to promote and support your CEΦEX certification

Branding
Accomplishment
Announcement
Ongoing

Animated video: Why Work with a CEΦEX Advisor?

Assessment Data Report 2019 - Advisors: Summarized data from CEΦEX assessments

Assessment Data Report 2019 - Recordkeepers and TPAs: Summarized data from CEΦEX assessments

Brochure (8 pages) intended for Advisors to give plan sponsors regarding the new Independent Assessment Report

Brochure (8 pages) intended for recordkeepers and TPAs to give clients and partners regarding the new Independent Assessment Report

# Summary of Findings



## Ways to Access:

- CEFEX Resources Page
- myCEFEX Portal (certified firms)
- <https://401kspecialistmag.com/how-advisors-are-continually-improving-cefex-perspectives/>

# Conclusion

Your feedback is very important! Please provide us with suggestions!

Matt Boyle  
Director of Operations, CEFEX  
[Matt.Boyle@fi360.com](mailto:Matt.Boyle@fi360.com)  
724-504-2443

# Current State of the TPA Marketplace

Richard Carpenter  
USVI Pensions  
[RNC@USVIPensions.com](mailto:RNC@USVIPensions.com)  
404-277-7678

# Consolidation Of TPAs Continues

About 1,300 TPAs as of May 2020

Approximately 2,000 in 2016

Over 4,500 in 1994

Note: Actuarial-only firms and bundled providers are not included

## Current Ranking Protocol

Tier 1: Operations have been reviewed and verified by an independent entity

Tier 2: Organization appears to demonstrate capacity follow best practices

Tier 3: Organization appears to follow many best practices

Tier 4: Organization appears not in compliance with many best practices



## TPAs by the Numbers

Tier 1: 96 TPAs	7%
Tier 2: 492 TPAs	38%
Tier 3: 402 TPAs	31%
Tier 4: 310 TPAs	24%

# Interesting TPA Observations

Five TPA Owners are currently in prison

18% of TPAs are Producing

10% of TPAs do not have a website

27% of TPA websites do not have a secure data portal



## Transition to more Quantifiable Ratings – Point System

Factors Include:

Client Retention

Client Growth

Employee Designations

Employee Turnover

Plans per Employee

Plans per Administrator

Data Security Protocols

# Thank You!

Richard Carpenter  
USVI Pensions  
[RNC@USVIPensions.com](mailto:RNC@USVIPensions.com)  
404-277-7678

# Prudent Practices in Litigation

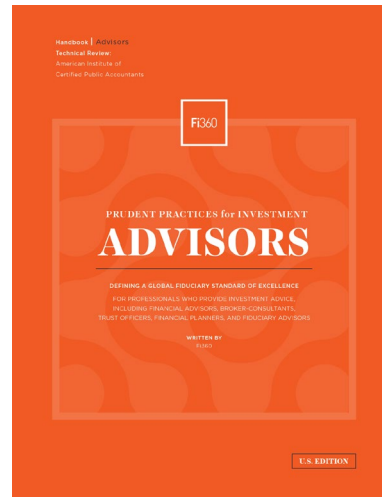
Alternate title:

“A Tale of Two Fund Families”

CEFEX certification is exclusively for advisors and plans which demonstrate adherence to best practices.

# Fund Family I

- Wildman V. American Century Case No. 4:16-CV-00737-DGK
- Plaintiffs' Expert testimony supported by "Prudent Practices for Investment Advisors"



# Plaintiffs' Process Expert Testimony

Investment Process did not conform to a fiduciary standard of care:

- Exclusive use of affiliated funds without evaluation to justify conflict of interest
- IPS contained toothless selection criteria
- Inadequate watch list process, e.g., used “gross” performance data in calculating information ratio
- Lack of documented selection process precluded prudent monitoring
- Delayed switch to cheaper share class, benefiting plan sponsor
- Use of brokerage window is no substitute for lack of prudent core funds
- Ignored consultants' advice to use stable value funds, index funds and reduce affiliated funds

# Court's Findings

- Fiduciary not required to consider competitor's funds if proprietary funds are prudent options.
- Majority of American Century's EEs are Sophisticated Investors, referencing 404 out of 1,300 EEs licensed to buy and sell securities.
- Committee preferred active funds because they believed active funds more responsive to market fluctuations.
- Fund Managers were readily accessible to Committee.
- Winnowing process goes beyond the law's requirement.
- The Committee prudently monitored funds on watch. Removing funds is very disruptive and although long-range strategy did not prove effective for 3 funds, Committee continually monitored the funds and came to a reasoned decision to retain them.
- Using gross performance is an industry standard because a benchmark does not have fees.
- Meeting Minutes were thorough.
- Delay in conversion to low cost share class was not imprudent because it is disruptive to participants and other changes were in the works.

# What's it Worth?

Damage Expert calculated 4 alternative damage scenarios based on how returns could have improved:

1. Compare index funds in same M* category	\$12.4M
(Replace Money Market with Stable Value	\$16.4M)
2. Compare Vanguard Index funds as US Govt. Thrift Savings Plan	\$27.8M
(Replace MMF with SV	\$31.7M)
3. Net investment comparison of most popular funds	
in same M* category, same sized plans	\$11.7M
(Replace MMF with SV	\$16.0M)
4. Use Hewitt Report recommendations	\$29.4M

**Expert testimony given no weight.**

**M\* = Morningstar Category**

# Fund Family II

- Brotherston v. Putnam Investments, LLC No. 17-1711 (1st Cir. 2018)
- Procedurally Different
- After Plaintiff's Case, Defendants Moved for Judgment
- District Court found that, although Defendants had not presented their case, the record would warrant a finding of imprudence based on Defendants' lack of independent monitoring and failure to remove funds that received "Fail" designations.
- However, The Court found that the Plaintiffs had not proved loss and dismissed the Claims.
- On Appeal, the First Circuit said that, to determine loss, it is reasonable to compare the actual returns on that portfolio to the returns that would have been generated by a portfolio of benchmark funds or indexes, comparable but for the fact that they do not claim to be able to pick winners and losers, or charge for doing so.
- First Circuit remanded case for further proceedings, US Supreme Court declined to intervene, and case has since settled.



# Active v Passive

Applying the Reasoning of Brotherston to a Subset of Active Managers in a Sample Plan.

Fund	Ticker	Peer Group	Expense Ratio	3 Year Return	Sharpe Ratio	Fi360 Score	Rixtrema Savings**
<b>American Century Inflation Adjs Bond R5</b>	AIANX	US Fund Inflation Protected Bond	0.27	2.52	0.22	18	
Fidelity Inflation-Prot. Bd Index	FIPDX	US Fund Inflation Protected Bond	0.05	3.44	0.52	0	\$ 3,667
Variance			0.22	-0.92	-0.30		
<b>BlackRock High Equity Income Instl.</b>	BMCIX	US Fund Large Value	1.12	-2.13	-0.18	57	
Vanguard Value Index Admiral	VVIAX	US Fund Large Value*	0.05	0.42	0	0	No comparator
Variance			1.07	-2.55	-0.18		
<b>Columbia Small Cap Value II Inst</b>	NSVAX	US Fund Small Value	1.10	-10.96	-0.47	54	
Vanguard Small Cap Value Index Admiral	VSIAX	US Fund Small Value	0.07	-8.37	-0.36	0	\$ 15,636
Variance			1.03	-2.59	-0.11		
<b>Baird Short-Term Bond Inst</b>	BSBIX	US Fund Short-Term Bond	0.30	2.19	0.29	0	
Vanguard Short-Term Bond Index Inv	VBISX	US Fund Short-Term Bond	0.15	2.95	0.82	0	No comparator
Variance			0.15	-0.76	-0.53		
<b>Invesco Developing Markets R5</b>	GTDIX	US Fund Diversified Emerging Mkt	1.05	-2.02	-0.12	0	
Vanguard Emerging Mkts Stock Idx Adm	VEMAX	US Fund Diversified Emerging Mkt	0.14	1.04	0.03	28	\$ 14,772
Variance			0.91	-3.06	-0.15		
<b>JPMorgan Core Bond I</b>	WOBDX	US Intermediate Core Bond	0.60	4.55	0.81	0	
Fidelity US Bond Index	FXNAX	US Intermediate Core Bond	0.03	4.88	0.97	0	\$ 7,764
Variance			0.57	-0.33	-0.16		
<b>Invesco Oppenheimer Global Y</b>	OGLYX	US Fund World Large Stock	0.83	3.38	0.18	26	
Vanguard Total World Stock Index Inv	VTWAX	US Fund World Large Stock	0.10	1.04	0.03	26	\$ 11,856
Variance			0.73	2.34	0.15		
TOTAL							\$ 53,695
Data as of 3/31/2020							

## Active v Passive

- **Conclusions from this analysis:**
- Each active fund has a higher expense ratio than its comparable index fund.
- 6 out of 7 active funds underperformed their comparable index funds.
- 6 out 7 active funds had lower Sharpe Ratios than their comparable index funds.
- None of the funds are rated as 'Watchlist 4' by the Fi360 Toolkit.
- This plan could save at least \$53,695/year, assuming a total of \$700,000 invested.

**Advisors must explicitly document their use of active funds, if applicable.**



AI Otto, AIFA®  
Director



# On-Demand Intelligence

For Retirement Plans

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# The Problem



## Issues for Retirement Plans

- **Is there a standard** for plan success?
- **Do people Measure** plan outcomes?
- Do you know if your plan receiving **value**?
- Do you know if fees truly **reasonable**?

# One Myth, Two Facts

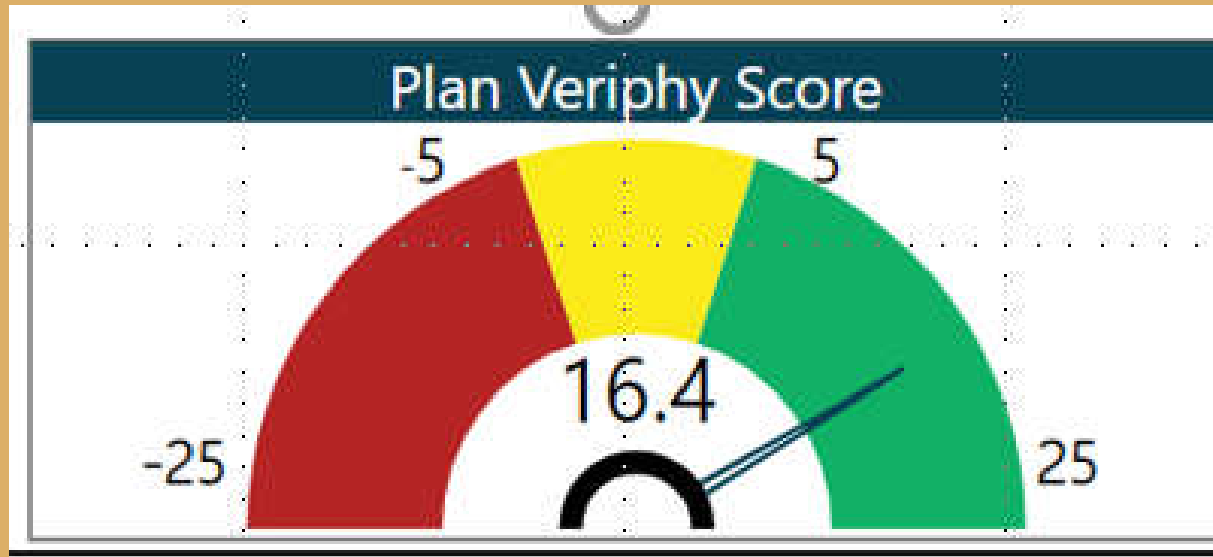


- **Investments are a small piece of outcomes????**
- **Plan Outcomes are a Strong Indicator of Advisor Skill**
- **CEFEX Certified Advisors Outperform**



# A Solution

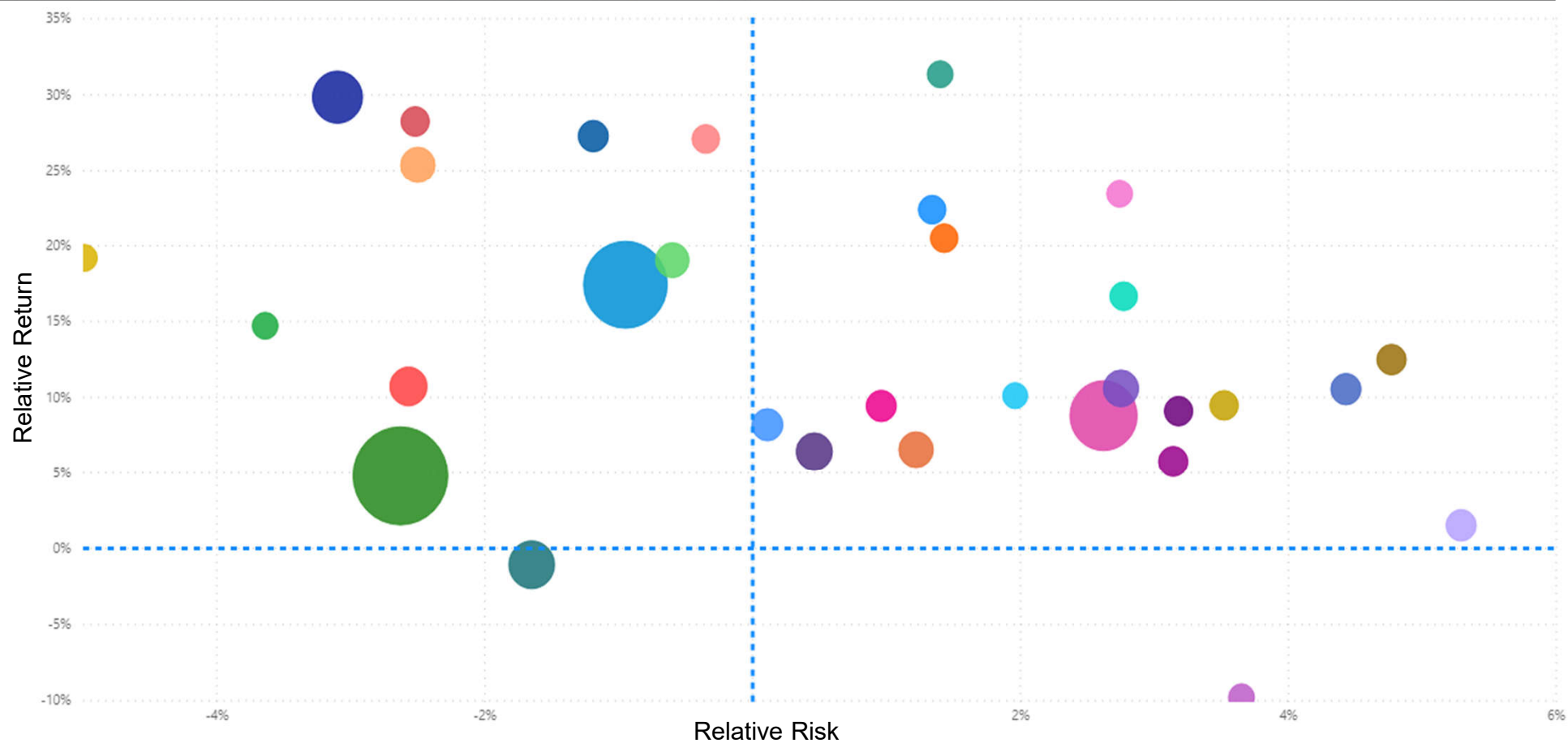
**Fast – Easy - Simple**



## The Veriphy Score

*function (Plan Return & Risk vs. Benchmark)*

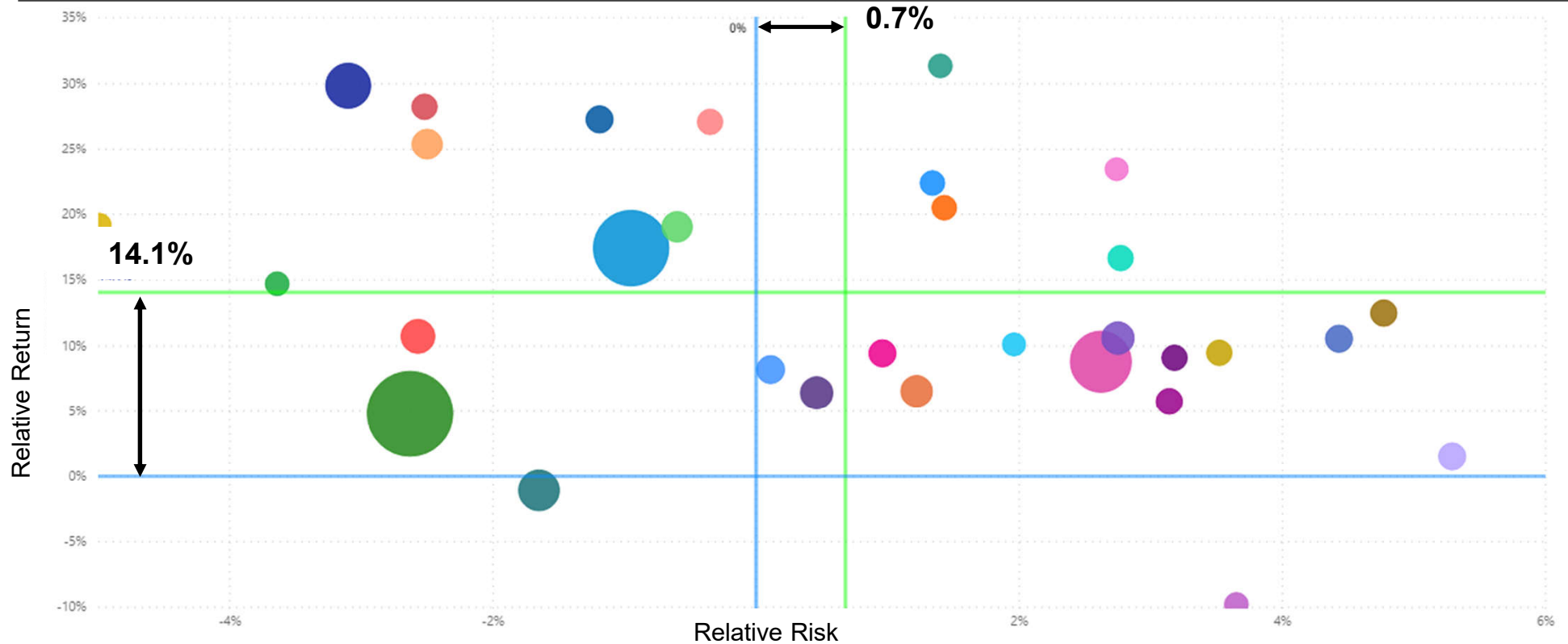
# 5 YR SCATTER PLOT – CEFEX PLANS



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# 5 YR SCATTER PLOT – CEFEX PLANS



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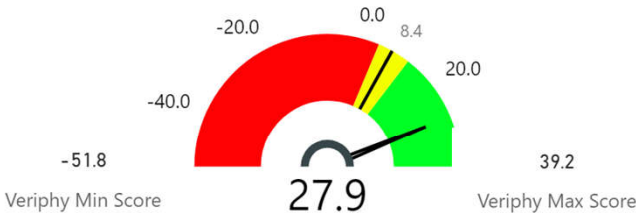
# PlanView™ Report

Plan Value-Added Analysis

Plan Selector  
001

5 Year Look 7 Year Look

Plan Veriphy Score vs Client Portfolio



Please Select Your Plan

351693695

Sponsor EIN

001

Plan Number

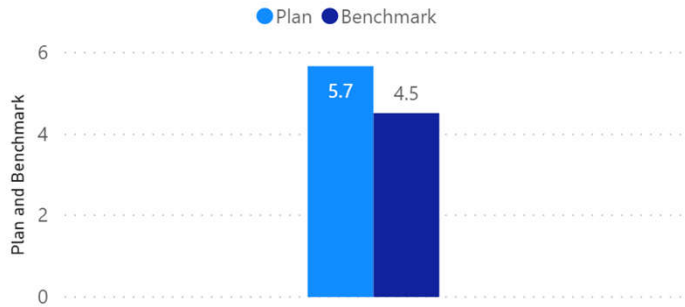
12/31/2018

Data as of

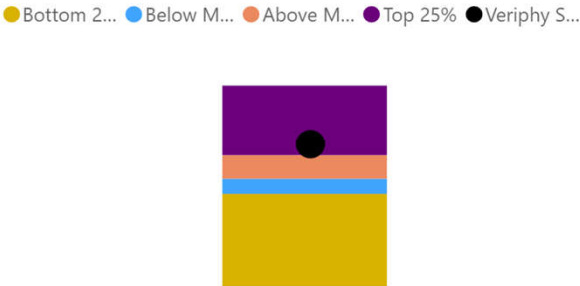
\$43M

Total Asset Value

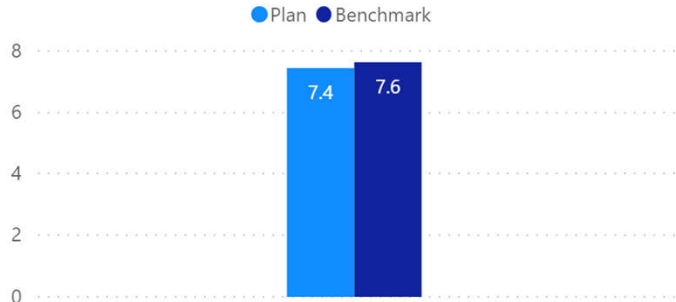
Annualized Return - Plan vs. Benchmark (%)



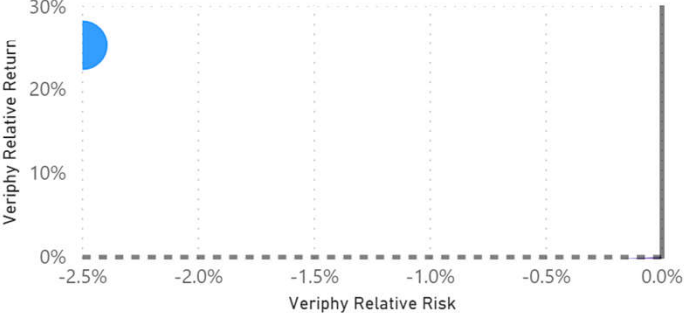
Plan Veriphy Score vs. Universe



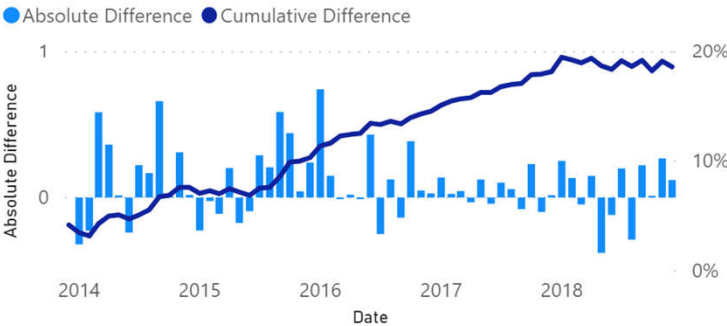
Plan Risk vs. Benchmark Risk



Plan Relative Return vs. Plan Relative Risk



Absolute Monthly Difference and Cumulative Difference



40  
Positive Periods

60  
Total Periods

7.0 %  
Cumulative Difference

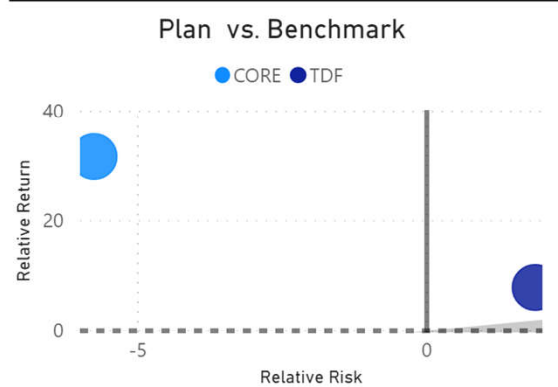
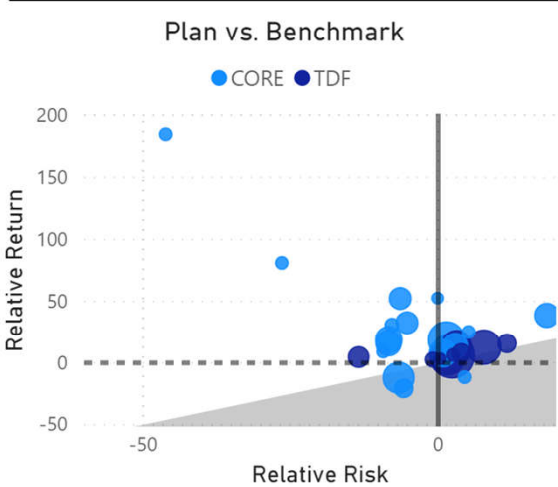
20  
Negative Periods

0.667  
Batting Average

# PlanView™ Report

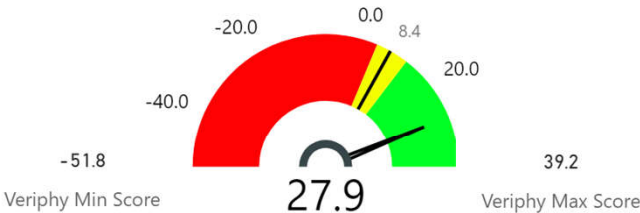
## Current Holdings Analysis

Plan Selector  
001



5 Year Look 7 Year Look

### Plan Verify Score vs Client Portfolio



Verify Relative Return  
25.4%

Verify Relative Risk  
-2.5%

Cumulative Difference  
7%

Number of Funds in the Plan  
27

Funds with Negative Verify Score  
3

Funds with Lower Return than Benchmark  
3

Please Select Your Plan

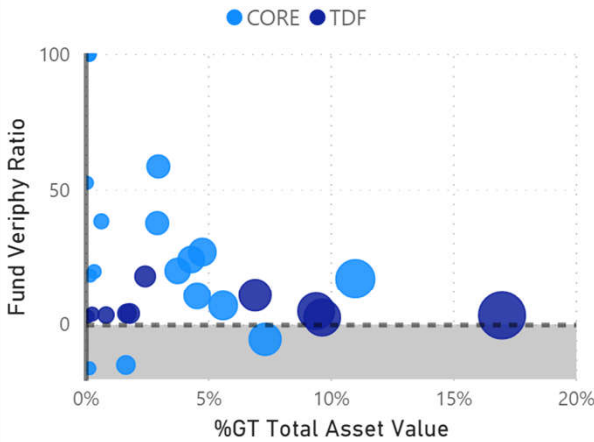
351693695

Sponsor EIN

\$43M

Total Asset Value

### Verify Score vs. Asset Size

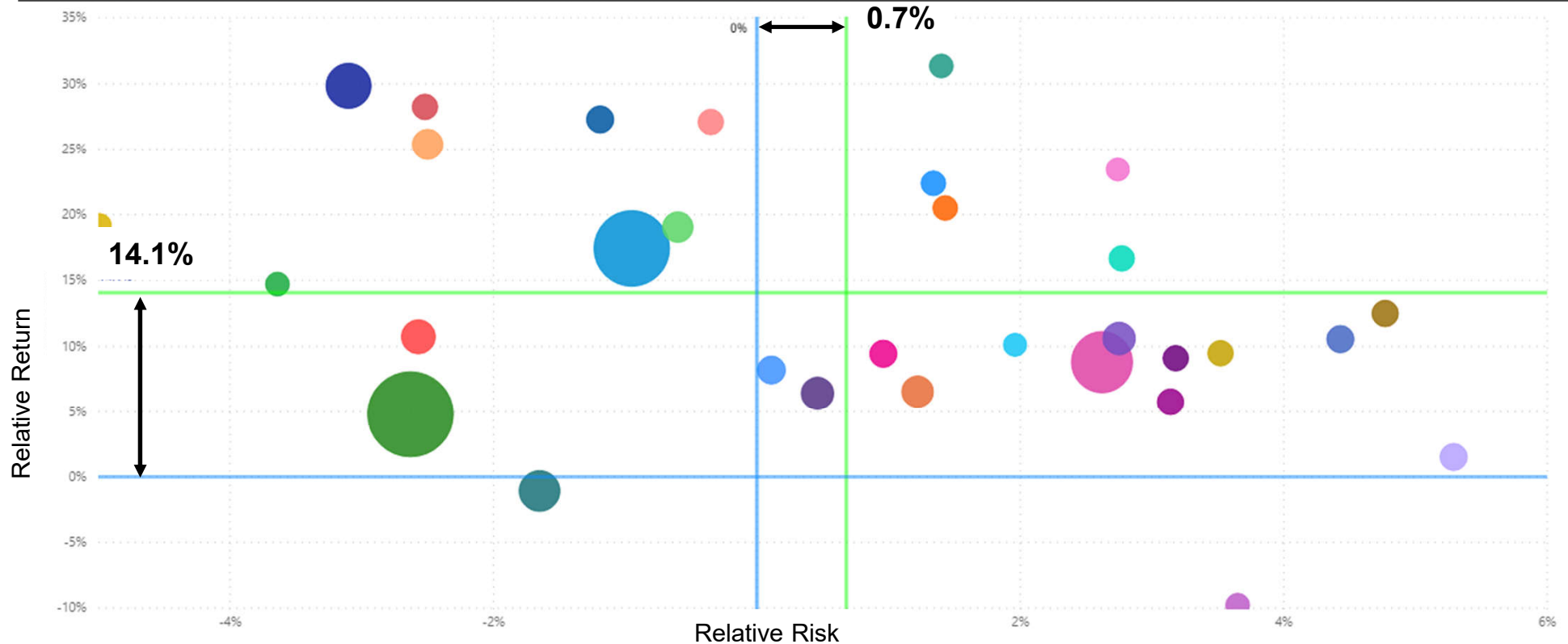


name	ticker	Type	Relative Risk	Relative Return	Annualized Return	Annualized Std_Dev
AB Global Bond I	ANAIX	CORE	-46.18	184.76	1.20	4.42
American Beacon Small Cp Val Inst	AVFIX	CORE	4.48	-11.51	5.39	16.41
American Century Mid Cap Value R6	AMDVX	CORE	-6.44	52.38	5.33	13.38
American Funds AMCAP R6	RAFGX	CORE	-6.70	-12.00	11.20	12.94
American Funds Europacific Growth R6	RERGX	CORE	0.79	8.01	4.12	12.10
American Funds US Government Sec R6	RGVGX	CORE	-5.85	-20.62	2.95	2.94
American Funds Washington Mutual R6	RWMGX	CORE	-8.36	18.88	8.36	11.83
Cohen & Steers Realty Shares I	CSJIX	CORE	5.16	25.20	7.10	13.43

# CEFEX Certified Advisors Add Value



## 5 YR SCATTER PLOT – CEFEX PLANS



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# Value. Measured.



## PlanView Report - The “Why and How”

## Scorecard

- Plan vs. Benchmark
- The “what happened”

Patented Outcomes Reports

Patent-Pending Methodology



## **For More Information Contact**

**Mark McCoy  
770.876.5105**

**[mark.mccoy@veriphyanalytics.com](mailto:mark.mccoy@veriphyanalytics.com)**

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CEFEX VIRTUAL GENERAL MEETING

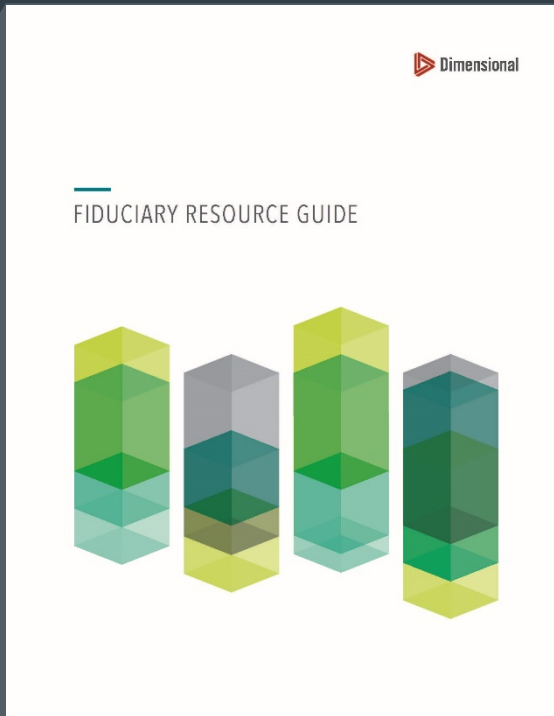
# Introducing the Dimensional Fiduciary Resource Guide

Tim Kohn, Head of Retirement Distribution Group  
David Campbell, Regional Director and Vice President  
Ian S. Kopelman, Partner, DLA Piper

May 19, 2020

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# Fiduciary Resource Guide



Principally authored by DLA Piper LLP

Designed to be an educational tool and a best-practices digest

## GOAL

Provide plan sponsors and advisors with expert guidance on how to manage retirement plans in the best interests of participants

# Dimensional Fiduciary Resource Guide



## Table of Contents

**Foundations** – Requirements for setting up a plan

**Applications** – Addressing the ongoing operation of a plan

**Considerations** – Topics a plan may want to consider

**Appendix**

**Glossary**



# A Look Inside the Guide

## Foundations: Use of Committees for Retirement Plan Governance



Prepared for Dimensional Fund Advisors by DIA Power

### Use of Committees for Retirement Plan Governance

#### KEY PRINCIPLE

The organization that establishes a plan is responsible for its management to the extent that responsibility is not properly delegated to others, and plan sponsors are commonly advised to use plan committees to exercise plan management and investment functions.

#### Who is responsible, and how are decisions made?

Answering these questions effectively is the key to streamlining plan management and reducing fiduciary risk.

The organization that establishes a plan is responsible for its management to the extent that responsibility is not properly delegated to others. That means the buck stops with an organization's board of directors, members, or partners for all plan management, unless specifically responsibilities are delegated.

Responsibility may be delegated to the plan's service providers or one or more committees, or specific individuals designated by name or title. For example, responsibility for setting up and maintaining the available investment choices (or for the day-to-day administration of the plan) can be delegated to a committee or committees or one or more individuals, rather than borne directly by the plan sponsor's full board of directors, though the board or other appointing entity remains responsible for monitoring its appointments.

Plan sponsors are commonly advised to use plan committees to exercise plan management and investment functions. Is a committee the best choice for all or certain aspects of plan management? If so, what's the best way to build a committee that works well? The answers depend on the size and complexity of the organization and its plan, in-house resources, and human factors affecting committee dynamics.

#### A LEGAL PERSPECTIVE (Nuts and Bolts on Plan Committees)

##### One or more committees?

The plan sponsor may decide that a single plan committee is most efficient or that multiple committees are warranted (see Exhibit 1). With multiple committees, one may handle investments and another administration, for example. A separate committee may be appointed to hear only benefit appeals. Specialized committees reduce their members' responsibility (with potential liability) for the fiduciary functions outside of their purview.

Prepared for Dimensional Fund Advisors by DIA Power

### A Behavioral Economist's Perspective: Human Factors Affecting Plan Committee Dynamics

Is group decision making really a good idea?

► By Warren Cormier,  
Executive Director,  
DRIA Retirement Research Center

Many decisions regarding DC plan operation and investment menu selection and monitoring are made using groups, typically designated as committees. The fundamental question is whether using a group to make a decision results in the optimal outcome for participants.

Do group dynamics get in the way of making the best decisions? Behavioral economics has something to say about this question. Most people would say that we all possess at least some cognitive flaws, some more serious than others. Therefore, when we form a group, the issue of biased decision making is not a question of "if?" but rather "how much?"

#### WHAT CAUSES SUBOPTIMAL DECISIONS?

Group bias in decision making can be minimized (or at least recognized) by understanding its root cause(s). Below are the fundamental reasons why groups may make suboptimal decisions.

##### 1. Incorrect co-orientation

Co-orientation refers to the ability of a decision-making group to understand the needs and preferences of the people affected by group decisions. These decisions are typically intended to benefit another group, such as participants in the case of a defined contribution (DC) plan. Our research at Boston Research Technologies has shown that decision-making groups frequently do not fully understand the group for whom they are making decisions.

A typical example of incorrect orientation surrounds the preferences of DC participants regarding the characteristics of the investments they choose. An immediate first step—which is rarely taken—is surveying the needs and preferences of the people affected by the decisions. Instead, group members often make decisions based on what they perceive the target audience wants, needs, and prefers—a potentially dangerous practice.

##### 2. Loss aversion

Loss aversion is the phenomenon identified by Daniel Kahneman in his Nobel prize-winning work on prospect theory. Simply stated, people are more negatively impacted psychologically by a loss than they are positively impacted by a gain of an equal amount.

# Use of Committees for Retirement Plan Governance

Who is responsible, and how are decisions made?

## Key Principle

Plan sponsors are advised to use committees to exercise plan management and investment decisions.

## Pro Tip

The plan sponsor or named fiduciary must formally establish the plan committee.

## Best Practice

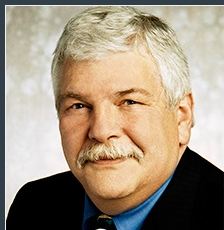
Committees should pay particular attention to plan expenses because fees are often a litigation target.

## Is Group Decision Making Really a Good Idea?

Behavioral finance expert Warren Cormier, Executive Director, DCIA Retirement Research Center, explores whether using a group to make a decision results in the optimal outcome for plan participants.

# Acknowledgements

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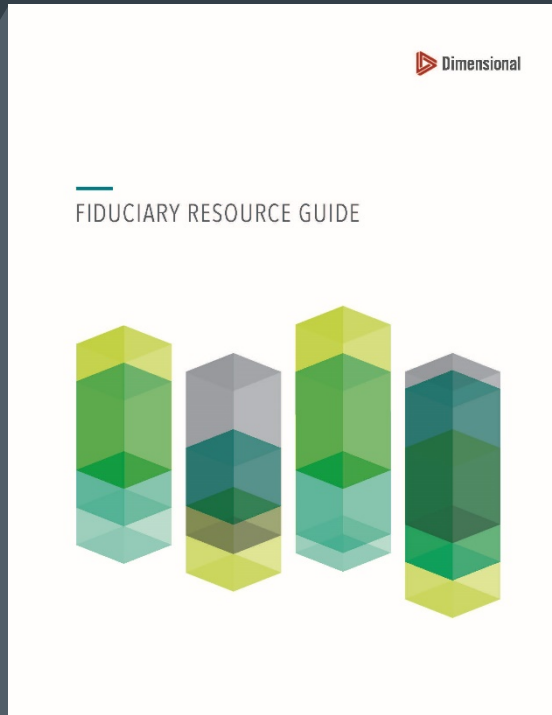
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Thank you!