

The logo consists of the text 'Fi360' in a bold, sans-serif font, centered within a square frame. The frame is composed of two concentric black lines. The background of the entire image is a gradient from light orange at the top to a darker red-orange at the bottom.

Fi360

A Broadridge® Company

Step 3 of the Fiduciary Process: Implementing the Investment Strategy

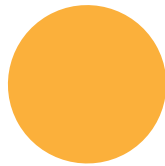
Rich Lynch, AIFA®
Fi360, Lead Instructor

Bennett Aikin, AIF®
Fi360, VP, Designations

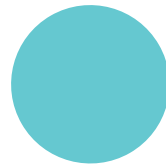
U.S. Legislation

**ERISA:**

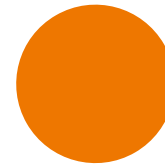
Employee Retirement
Income Security Act
(Qualified retirement
plans)

**UPIA:**

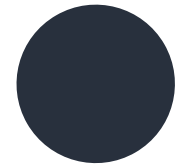
Uniform Prudent Investor
Act (Private trusts, the
default standard if nothing
else “fits”)

**UPMIFA:**

Uniform Prudent
Management of Institutional
Funds Act (Foundations,
endowments, and
government sponsored
charitable institutions)

**MMPERSA:**

Uniform Management of
Public Employees
Retirement Systems Act
(State, county, and
municipal retirement
plans)

**IAA:**

The Investment Advisers
Act of 1940

Global Fiduciary Precepts

- 01 Follow laws and governing documents
- 02 Diversify to manage risk and return
- 03 Prepare and follow an investment policy statement
- 04 Prudently select fiduciary and non-fiduciary service providers
- 05 Control and account for costs
- 06 Avoid or manage conflicts of interest
- 07 Monitor service providers
- 08 Monitor and assure conformity to fiduciary obligations

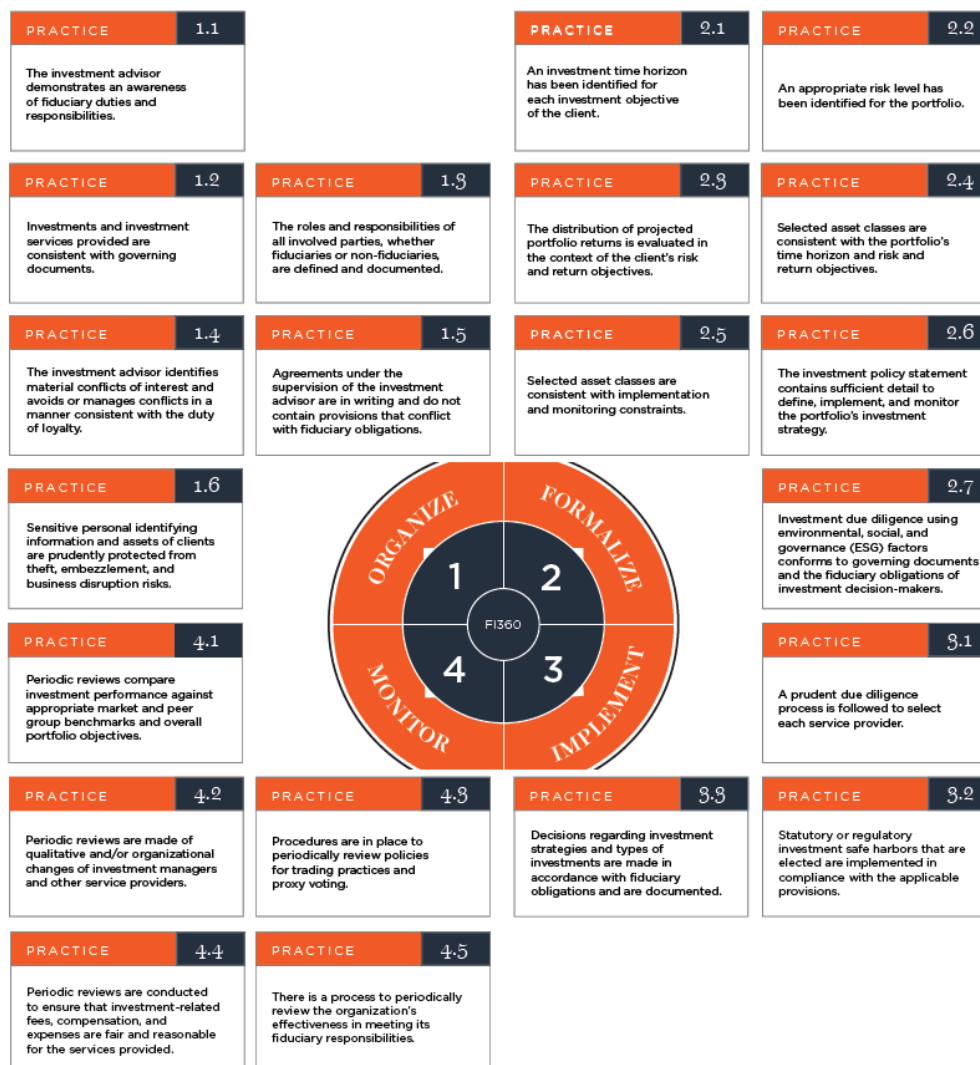
Job Task Analysis

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Periodic Table of Fiduciary Practices

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3

IMPLEMENT

Step 3 – Implement

- Service Provider Due diligence
- Regulatory Safe Harbors
- Investment Strategy & Due Diligence

A prudent due diligence process is followed to select each service provider.

- **3.1.1** Prudent criteria are identified for each due diligence process used to select service providers.
- **3.1.2** The due diligence process used to select each service provider is documented.
- **3.1.3** Each due diligence process used to select service providers is consistently applied.

PRACTICE

3.1

Define Service Requirements

- What services are needed? (legal, accounting, trustee/custodial, recordkeeping, investment management, education, advice, etc.)
- What services do the providers offer/recommend?
- Are there opportunities to bundle multiple services to a single provider to save cost?
- What criteria will be used to evaluate service providers against each other? (cost, performance, size, experience, credentials, convenience, testimonials/recommendations, etc.)

Custodial Selection

CRITERION

3.1.1

- Role of the custodian:
 - hold securities for safekeeping
 - report on holdings and transactions
 - collect interest and dividends
 - affect trades
- Due diligence:
 - insurance
 - custody fee
 - review monthly statement

Documenting the Due Diligence Process

CRITERION

3.1.2

- Use RFP or RFI process
- Capabilities, costs, and security are key criteria for either

Require 408(b)(2) Type Disclosure

- Applies to all service providers expected to receive \$1,000 or more in compensation
- Must disclose:
 - Fiduciary status
 - Description of services to be provided
 - All direct or indirect compensation to be received

Consistent Application of Due Diligence

- Fiduciary file should substantiate consistent application of due diligence
- Files are stored securely and are accessible

Statutory or regulatory investment safe harbors that are elected are implemented in compliance with the applicable provisions.

- **3.2.1** Available safe harbors are evaluated to determine if any advance the best interests of the investors and/or beneficiaries.
- **3.2.2** When elected, safe harbor provisions are implemented in compliance with requirements.

PRACTICE

3.2

How Safe Harbors Work

- Safe harbors:
 - Voluntary
 - May insulate the fiduciary from liability associated with certain investment-related decisions and acts
 - Have defined, prescriptive requirements that must be followed in order to protect the fiduciary from liability

Summary of ERISA Related Safe Harbors

	Who gets protection?	Protection from liability for:
405(c)	Fiduciary doing delegation	Actions of party delegated to
404(c)	DC Plan Sponsor	Actions of participants
Fiduciary Adviser	DC Plan Sponsor	Advice of Fiduciary Adviser
QDIA	DC Plan Sponsor	Having placed participant assets without their direction
Auto-rollovers	DC Plan Sponsor	Selection of IRA and investment of related funds

405(c) or General Safe Harbor Provisions

- When investment decisions are delegated, the following safe harbor requirements apply:
 - Plan must allow for delegation of investment decisions
 - Procedures for delegation must be prudent
 - Investment decisions must be delegated to “prudent experts”
 - Experts must be selected following a prudent process
 - Prudent experts must be given discretion
 - If prudent expert is an RIA, it must acknowledge fiduciary status
 - Prudent experts must be monitored

404(c) Safe Harbor Provisions

In addition to the general safe harbor requirements, 404(c) requires the following:

1. Notification in writing of intent to constitute a 404(c) plan
2. At least three different investment options
3. Opportunity for participants to give investment directions
4. Opportunity for participants to change their investment strategy or allocation consistent with other investment alternatives in the plan
5. Opportunity for participants to change their investment strategy or allocation to minimize risk of large losses
6. Information and education on the different investment options
7. Opportunity for participants to change their investment strategy or allocation with a frequency that is appropriate given market volatility; at least quarterly
8. Plan administrator must comply with participant disclosure requirements as per 404(a)(5)

Decisions regarding investment strategies and types of investments are made in accordance with fiduciary obligations and are documented.

- **3.3.1** A prudent due diligence process is used to select investment strategies, Investment Managers, and investments.
- **3.3.2** Decisions regarding the selection of investments consider both qualitative and quantitative criteria.
- **3.3.3** The due diligence process used to select investment strategies, Investment Managers, and investments is documented and consistently applied.
- **3.3.4** Regulated investments are preferred over unregulated investments when all other characteristics are comparable.
- **3.3.5** Investments that are covered by readily available data sources are preferred over similar investments for which limited coverage is available when all other characteristics are comparable.
- **3.3.6** A prudent due diligence process is used to make decisions regarding the use of proprietary versus non-proprietary products, and separately managed versus commingled accounts.
- **3.3.7** Decisions regarding rollover advice are made in accordance with fiduciary duties of loyalty and care.

PRACTICE

3.3

Due Diligence for Selection

CRITERION
3.3.1

- The “prudent expert” standard is expected
- Use professional money managers
- Manage the managers

Due Diligence Philosophy

CRITERION
3.3.1

- Same process for mutual funds and separate account managers
- No proprietary formulas
- Simple, replicable process
- Dual (search and monitor) application screens

Due Diligence Screen: Regulatory Oversight

CRITERION
3.3.2

- An investment is managed by a:
 - Bank
 - Insurance company
 - Registered investment company
 - Registered investment adviser

ALLOCATION--50% TO 70% EQUITY

			SCORE CRITERIA												ROLLING AVERAGES (PEERS)			
INVESTMENT NAME	TICKER	SCORE (PEERS)	IN	MT	NA	CO	SS	ER	A3	S3	R1	R3	R5	1 YR	3 YR	5 YR	10 YR	
Investment #1	-	0 (756)	✓	✓	✓	NA	NA	✓	✓	✓	✓	✓	✓	9 (702)	3 (651)	2 (522)	-	
Investment #2	-	39 (756)	✓	✓	✓	NA	NA	✗	✓	✓	✓	✓	✓	39 (702)	48 (651)	48 (522)	-	
Investment #3	-	71 (756)	✓	✓	✗	NA	NA	✗	✓	✓	✓	✓	✗	79 (702)	91 (651)	94 (522)	-	
Investment #4	-	88 (756)	✓	✓	✓	NA	NA	✓	✗	✗	✗	✗	✗	88 (702)	85 (651)	-	-	

Due Diligence Screen: Track Record

CRITERION
3.3.2

- Minimum of 3 years
- Consistent with period needed for MPT stat calculations
- Different share classes allow for some flexibility

COMMUNICATIONS

INVESTMENT NAME	TICKER	SCORE (PEERS)	SCORE CRITERIA											ROLLING AVERAGES (PEERS)			
			IN	MT	NA	CO	SS	ER	A3	S3	R1	R3	R5	1 YR	3 YR	5 YR	10 YR
Investment #1	-	0 (34)	✓	✓	✓	NA	NA	✓	✓	✓	✓	✓	✓	8 (33)	6 (32)	12 (29)	13 (21)
Investment #2	-	39 (34)	✓	✓	✗	NA	NA	✓	✓	✓	✓	✓	✓	48 (33)	73 (32)	82 (29)	82 (21)
Investment #3	-	58 (34)	✓	✗	✓	NA	NA	✓	✗	✗	✗	✗	✗	48 (33)	45 (32)	31 (29)	37 (21)
Investment #4	-	77 (34)	✓	✗	✓	NA	NA	✗	✗	✗	✗	✗	✗	82 (33)	79 (32)	67 (29)	67 (21)

Due Diligence Screen: Stability of the Organization

CRITERION
3.3.2

- Minimum two-year tenure in management
- Consider qualitative factors

SCORE (PEERS)	SCORE CRITERIA										
	IN	MT	NA	CO	SS	ER	A3	S3	R1	R3	R5
0 (1,316)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
33 (1,316)	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓	✓
70 (1,316)	✓	✓	✓	✗	✗	✗	✓	✓	✗	✓	✓

Score Criterion

IN. Inception Date. Must have at least a 3 year track history

MT. Manager Tenure. Must have at least a 2 year track history. (Most senior manager's tenure)

NA. Net Assets. Must have >= 75 million under management. (Total across all share classes)

CO. Composition. Must have >= 80% allocation to primary asset (Not applied to all peer groups)

SS. Style. Must have current style box match the peer group. (Not applied to all peer groups)

ER. Prospectus Net Exp Ratio. * Must place in the top 75% of its peer group.

A3. Alpha - Broad Market (3 YR). Must place in the top 50% of its peer group.

S3. Sharpe (3 YR). Must place in the top 50% of its peer group.

R1. Return (1 YR). Must place in the top 50% of its peer group.

R3. Return (3 YR). Must place in the top 50% of its peer group.

R5. Return (5 YR). Must place in the top 50% of its peer group.

* For separately managed accounts, r-squared in the top 75% of it's peer group is used as a replacement criterion for Exp Ratio.

Summary Legend

✓	Investment meets the criterion
✗	Investment does not meet the criterion
-	Investment data is not available
NA	Investment is not screened on the criterion
NS	Investment doesn't have the history to be scored

Due Diligence Screens: Assets in the Product

CRITERION 3.3.2

- Minimum \$75 million under management
- Threshold determined in light of application to all asset classes

LARGE GROWTH

			SCORE CRITERIA												ROLLING AVERAGES (PEERS)			
INVESTMENT NAME	TICKER	SCORE (PEERS)	IN	MT	NA	CO	SS	ER	A3	S3	R1	R3	R5	1 YR	3 YR	5 YR	10 YR	
Investment #1	-	0 (1,371)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13 (1,313)	-	-	-	
Investment #2	-	0 (1,371)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	47 (1,313)	36 (1,208)	37 (1,010)	-	
Investment #3	-	50 (1,371)	✓	✓	✓	✓	✓	✗	✗	✗	✗	✓	✓	49 (1,313)	27 (1,208)	-	-	
Investment #4	-	71 (1,371)	✓	✓	✓	✓	✓	✗	✗	✗	✓	✗	✗	70 (1,313)	82 (1,208)	-	-	

Due Diligence Screens: Composition Consistent with Asset Class

CRITERION
3.3.2

- Minimum 80% of the underlying securities consistent with broad asset class
- Emphasizes earlier asset allocation decisions

MID-CAP GROWTH

		SCORE (PEERS)	SCORE CRITERIA												ROLLING AVERAGES (PEERS)			
INVESTMENT NAME	TICKER		IN	MT	NA	CO	SS	ER	A3	S3	R1	R3	R5	1 YR	3 YR	5 YR	10 YR	
Investment #1	-	0 (590)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	8 (569)	7 (501)	15 (443)	-	
Investment #2	-	25 (590)	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	30 (569)	57 (501)	58 (443)	-	
Investment #3	-	72 (590)	✓	✓	✓	✓	✗	✓	✗	✗	✗	✓	✗	44 (569)	31 (501)	-	-	
Investment #4	-	85 (590)	✓	✓	✗	✓	✓	✓	✗	✗	✓	✗	✗	90 (569)	93 (501)	83 (443)	-	

Due Diligence Screens: Style Consistency

CRITERION 3.3.2

- Investment consistent with sub-asset class or peer group
- No classification standard across databases
- Quantitative and qualitative analysis preferred

REAL ESTATE

			SCORE CRITERIA												ROLLING AVERAGES (PEERS)			
INVESTMENT NAME	TICKER	SCORE (PEERS)	IN	MT	NA	CO	SS	ER	A3	S3	R1	R3	R5	1 YR	3 YR	5 YR	10 YR	
Investment #1	-	0 (246)	✓	✓	✓	NA	NA	✓	✓	✓	✓	✓	✓	16 (230)	13 (204)	-	-	
Investment #2	-	48 (246)	✓	✓	✗	NA	NA	✓	✗	✗	✓	✗	✓	43 (230)	44 (204)	47 (176)	-	
Investment #3	-	56 (246)	✓	✓	✓	NA	NA	✓	✗	✗	✗	✗	✗	28 (230)	15 (204)	33 (176)	-	
Investment #4	-	84 (246)	✓	✓	✓	NA	NA	✓	✗	✗	✗	✗	✗	55 (230)	62 (204)	43 (176)	-	

Due Diligence Screen: Expense Ratio/Fees Relative to Peers

CRITERION
3.3.2

- Fees should be less than the highest 25% of fees
- Particular scrutiny of investment fees and expenses highlight the need to focus on this fiduciary requirement

Score Criterion

IN. Inception Date. Must have at least a 3 year track history
MT. Manager Tenure. Must have at least a 2 year track history. (Most senior manager's tenure)
NA. Net Assets. Must have >= 75 million under management. (Total across all share classes)
CO. Composition. Must have >= 80% allocation to primary asset (Not applied to all peer groups)
SS. Style. Must have current style box match the peer group. (Not applied to all peer groups)
ER. Prospectus Net Exp Ratio. * Must place in the top 75% of its peer group.
A3. Alpha - Broad Market (3 YR). Must place in the top 50% of its peer group.
S3. Sharpe (3 YR). Must place in the top 50% of its peer group.
R1. Return (1 YR). Must place in the top 50% of its peer group.
R3. Return (3 YR). Must place in the top 50% of its peer group.
R5. Return (5 YR). Must place in the top 50% of its peer group.

* For separately managed accounts, r-squared in the top 75% of its peer group is used as a replacement criterion for Exp Ratio.

Summary Legend

✓	Investment meets the criterion
✗	Investment does not meet the criterion
-	Investment data is not available
NA	Investment is not screened on the criterion
NS	Investment doesn't have the history to be scored

Due Diligence Screens

Performance Relative to Assumed Risk

CRITERION
3.3.2

- Three-year performance evaluated against peers, adjusting for risk
- Alpha and the Sharpe Ratio are common screens

Prospectus Net Expense Ratio	1.02%		0.95%		0.82%		0.95%		0.45%	
Alpha (3 Year)	0.55%		0.06%		1.22%		1.02%		3.33%	
Sharp Ratio (3 Year)	0.35%		0.34%		0.42%		0.4%		0.54%	
Total Return (1 Year)	-12.78%		-14.9%		-13.96%		-12.54%		-12.69%	

Due Diligence Screen: Performance Relative to Peer Group

CRITERION
3.3.2

- 1-, 3- and 5-year rolling performance evaluated against peer group
- Below median performance constitutes a shortfall
- Shortfall dictates further due diligence

WORLD BOND

Investment Name	TICKER	Score (Peers)	Score Criteria												Rolling Averages (Peers)			
			IN	MT	NA	CO	SS	ER	A3	S3	R1	R3	R5	1 Yr	3 Yr	5 Yr	10 Yr	
Investment #1	-	19 (286)	✓	✓	✓	NA	NA	✓	✓	✓	✗	✓	✓	2 (275)	21 (248)	31 (204)	38 (100)	
Investment #2	-	24 (286)	✓	✓	✓	NA	NA	✓	✓	✓	✗	✓	✓	21 (275)	24 (248)	19 (204)	-	
Investment #3	-	41 (286)	✓	✓	✓	NA	NA	✓	✓	✓	✗	✓	✗	18 (275)	42 (248)	48 (204)	33 (100)	
Investment #4	-	73 (286)	✓	✓	✓	NA	NA	✗	✗	✗	✗	✗	✗	57 (275)	49 (248)	43 (204)	29 (100)	

Performance Example

- Chasing top quartile performance
- For the three-year period 2016 – 2018:
 - Universe of 6,871 funds
 - 52 (0.7%) funds survived

Data source: Morningstar Large, Mid, and Small equity funds and the fi360 Toolkit as of December 31, 2017.

Performance Example

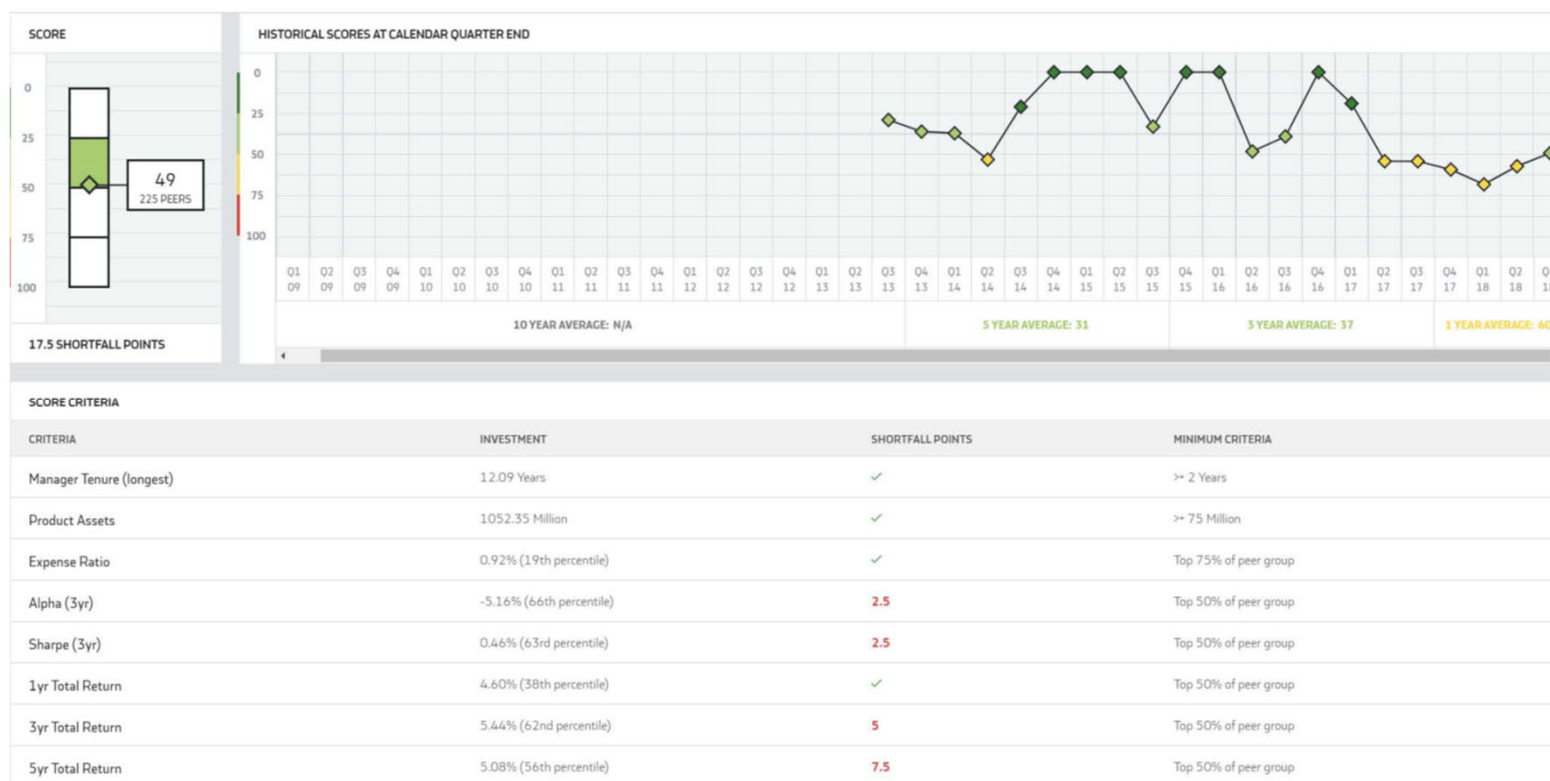
- Chasing top quartile performance
- For the five-year period 2014 – 2018:
 - Universe of 6,439 funds
 - 3 (0.04%) funds survived

Data source: Morningstar Large, Mid, and Small equity funds and the fi360 Toolkit as of December 31, 2017.

Qualitative and Quantitative Criteria

CRITERION

3.3.2



Consistent Application Requires Judgment

- Shortfalls are flags – define the agenda for further examination
- Shortfalls are not filters (filters are restrictions such as prohibited securities)
- Document due diligence deliberations and actions – precedent is important
- Index investing simplifies, does not circumvent, due diligence

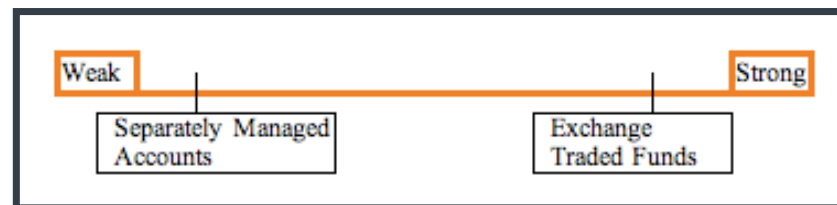
“Prudent Expert” Products are Regulated

- Registered investment adviser
- Banks
- Insurance companies

Investments Covered by Readily Available Data Preferable

CRITERION
3.3.5

- Expect and adjust for database errors
- Verify frequency and timeliness of updates
- Consider completeness of data



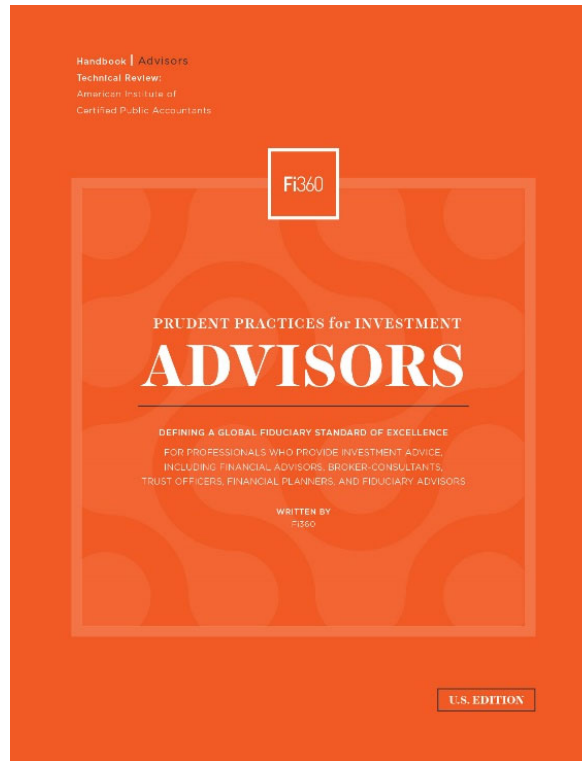
Separately Managed vs. Commingled Accounts

CRITERION
3.3.6

- Tax efficiency
- Minimum required investment
- Ease in meeting asset allocation and rebalancing guidelines
- Portfolio transparency and availability of due diligence information
- Ability to give investment direction
- Competitive fees and expenses
- Institutional management issues

Recommending Rollovers

- Rollover options:
 - leave assets in the plan
 - roll over to a new employer plan
 - roll over to an IRA
 - take a taxable distribution
- Factors to consider:
 - fees and expenses
 - investment options available
 - services available
 - ability to take penalty-free withdrawals
 - protection from creditors and legal judgments
 - employer stock in plan



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Q & A

Please submit any questions using the GoToWebinar interface

Additional questions can also be sent to support@fi360.com

THANK
YOU
