

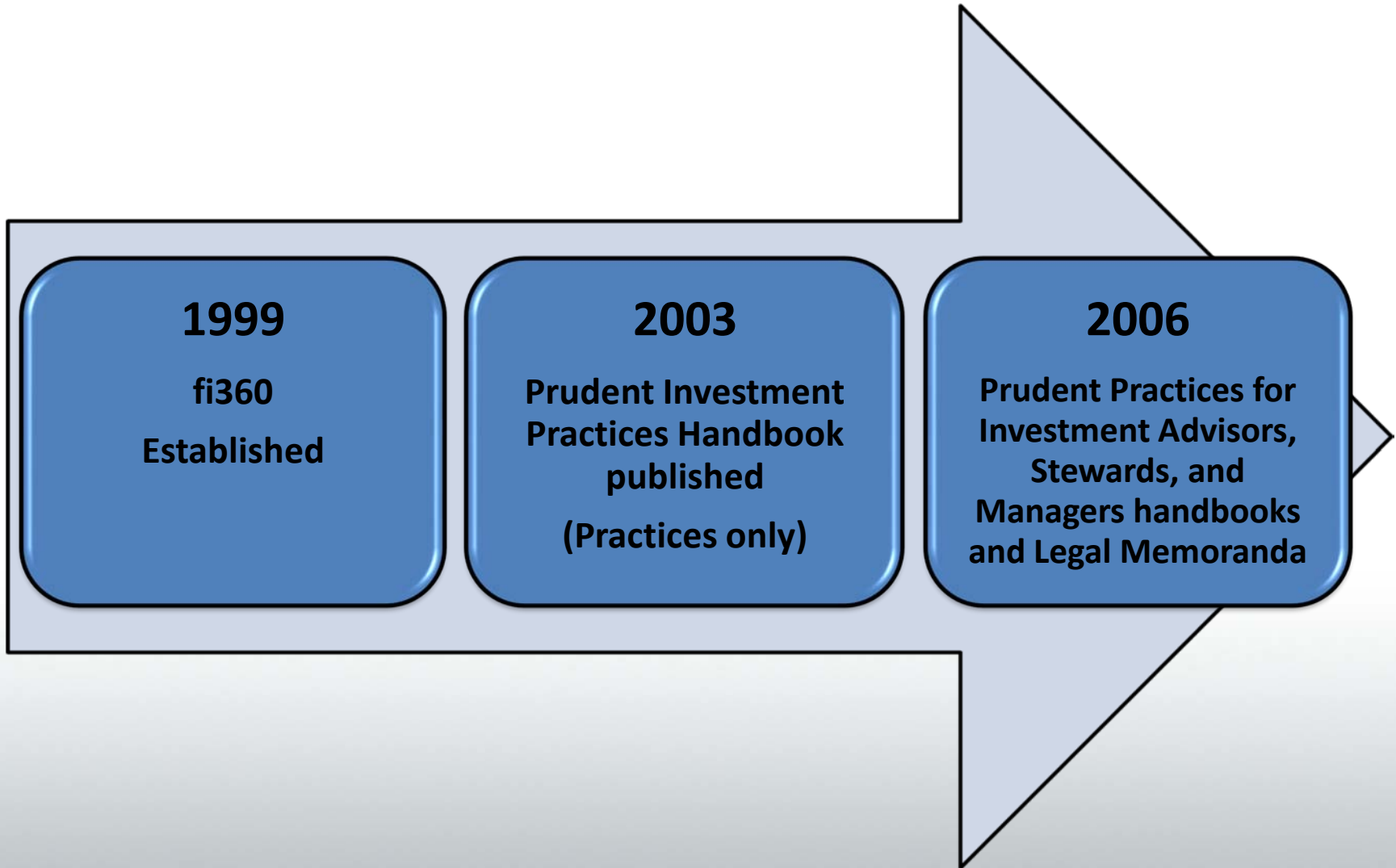
Consultant's Review of Fiduciary Practices

An introduction for AIF Designees to the new fiduciary
consulting assistance document

Learning Objectives:

- Articulate the historical development of the fiduciary practices.
- Recognize the roles of CEFEX and fi360 in the process of conducting fiduciary reviews and assessments.
- Recognize the main differences between the Consultant's Review of Fiduciary Practices (CRFP) and Consultant's Assessment of Fiduciary Excellence (CAFE).
- Utilize the CRFP to conduct high-level reviews of investment stewards.

Practices and Criteria Development Review



Practices and Criteria Development Review

2008

**Prudent Practices for
Investment Advisors
and Stewards and the
Legal Memoranda**

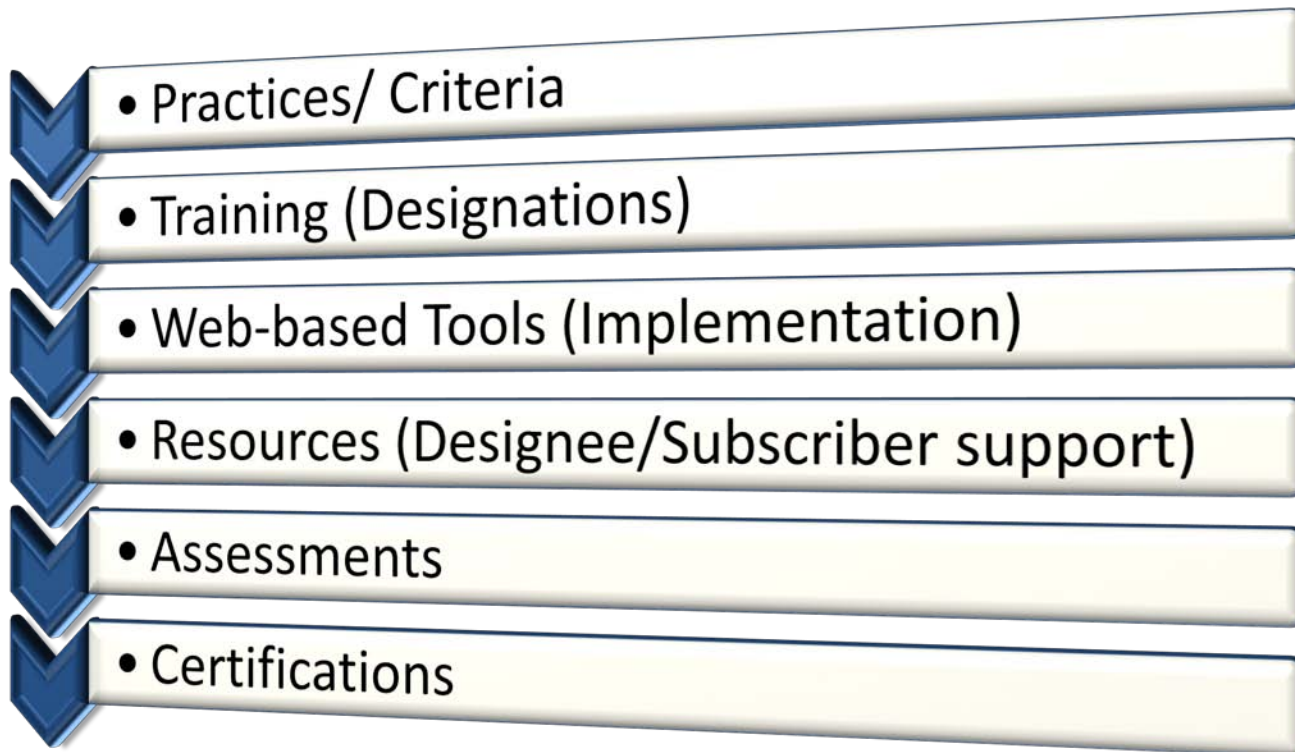
2013

**Significant updates to
Prudent Practices for
Investment Advisors
and Stewards
handbooks and Legal
Memoranda**

CEFEX and Introduction of Assessment Tools

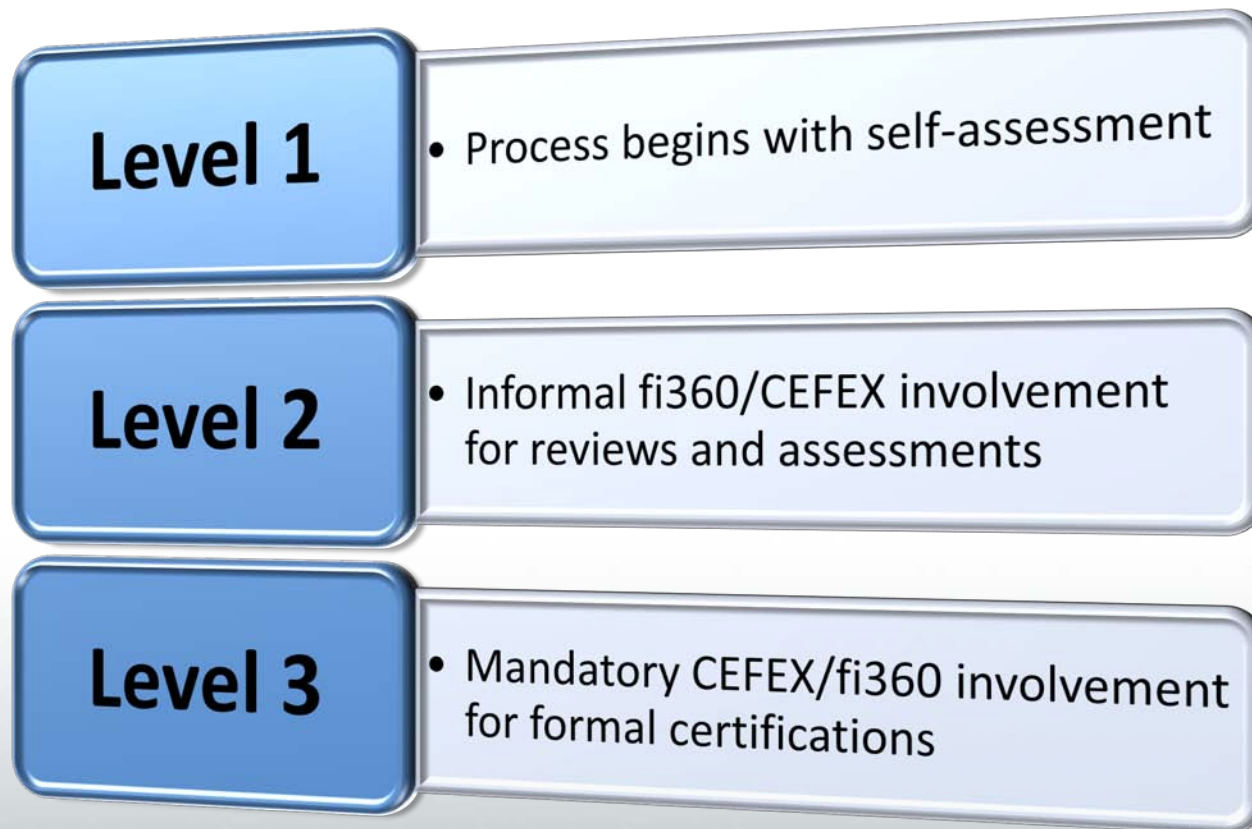


- Established in 2006
- Logical progression for investment professionals with fi360:



CEFEX and Introduction of Assessment Tools

Three Levels of Assessment:



CEFEX and Introduction of Assessment Tools



AIF Designees:

- Permitted to conduct Level 2 assessments utilizing the CRFP tool
- Reviews are informal and fundamentally engaging
- Consultations with fi360 or CEFEX is not required



CEFEX and Introduction of Assessment Tools



AIFA Designees:

- Qualified to conduct Level 2 reviews and Level 3 assessments
- CRFP:
 - used for reviews (Level 2)
- CAFE:
 - primarily for assessments (Level 3)
 - sometimes used for reviews (Level 2)



Types of Engagements

Level 1

SAFE →



Level 2

Review → Assessment



Consulting Opportunities

CRFP

CAFE



Level 3

→ Certification



Annual Revenue

CAFE



Source: CEFEX

Development of the CRFP Tool



- CAFE – **C**EFEX- **A**ssessment of **F**iduciary **E**xcellence
- CRFP – **C**onsultants **R**eview of **F**iduciary **P**ractices
- The CRFP is a ‘simplified’ CAFE.
- Practical experience with the CAFE since 2006 has enabled us to make continual improvements to the CAFE tool, from which the CRFP was derived.
- Development of the CRFP was driven by the need for a simpler assessment tool for use at Level 2, particularly for assessed entities that are smaller and less complex

Using the CRFP – an Overview



- **Part I – Preparing for the Review:**
 - Sets the boundaries of the engagement including what is covered and what is not covered
 - Establishes the objectives and scope
- **Part II – Data Gathering:**
 - Relevant background information
 - Documentation that substantiates adherence to the Practices/Criteria
 - Evidence section under each question provides guidance on what is necessary to meet the requirements
 - Tables simplify organization of data
- **Part III – Finding and Conclusions:**
 - Practices “conforms / does not conform” checklist

Using the CRFP – Part I



- Part 1 – Preparing for the Review
- To be completed with the entity being reviewed
- Key objectives:
 - Scope of engagement
 - Legal and practical limitations
 - Attorney-client privilege
 - Source of payment
- Ensure client understands both **what is** and **what is not** being reviewed

Using the CRFP – Part II



Part II – Data Gathering:

- Background:
 - Steward and designee/analyst information
 - ID other service providers
 - General administrative information
- Documentation:
 - Fiduciary File
 - Essential documents – e.g., IPS, service provider agreements
 - Recommended documents – e.g., performance reports, committee minutes



Part II – Data Gathering

- Demonstration of Fiduciary Responsibility:
 - Addresses most of the Practices in Step 1
 - Evidence sections provide excellent guidance regarding conformity
- Asset Allocation Strategies:
 - Timing and distribution of cash flows
 - Participant demographics
 - Asset class analysis
 - Comparison of actual asset allocation to that specified in the IPS
 - All tables do not apply to all stewards



Part II – Data Gathering:

- Investment Policy Statement:
 - Practice 2.6 Criteria form a checklist of essential components
 - Are socially responsible investments being utilized?
- Due Diligence Procedures:
 - Table 4 captures investment due diligence procedures or screens
 - Implementation of investment strategies
 - Safe harbors

Using the CRFP – Part II



Part II – Data Gathering:

- Custody, Brokerage, and Other Service Providers:
 - Due diligence process for selecting other service providers
 - SMAs and related execution questions
- Monitoring and Performance Reports:
 - Addresses all of the Practices in Step 4
 - When was a service provider last replaced?
 - Table 15 captures investment-related expenses
 - Fiduciary liability insurance



Part III – Findings and Conclusions:

- Checklist requiring a determination of whether the entity being reviewed:
 - Conforms
 - Conforms but with opportunity for improvement
 - Does not conform
- “CRFP Reference” column lists the related question(s) from Part II
- “Comments” box should be used:
 - To describe important or unique information related to Practice
 - When “Conforms, OFI” or “Non-conformity” are checked
- Part III should be the basis for a final report

Electronic Assessment Forms



- Available through www.CEFEX.org (not fi360!)
- Unique EAF is established for each review client
- EAF significantly reduces burden on client and designee:
 - Time-saving when CRFP version is changed while a review is underway
- Version changes do not require data re-entry!
- Designee can offer client secure access to CEFEX website to:
 - Start data entry in CRFP
 - Upload review documents
- Assessment data will migrate from CRFP to CAFE as client involvement increases

EAF View



ABC Inc.

ASPPA Administration Services Certification

Registration No: **SAMPLE01** Status: Registered

Date Submitted by Client Date Submitted by Analyst Date Accepted

Assessment Type: **R4** Status: Open

Assessment Report Status: Client Edit

Page List

- 1 Introduction
- 2 Background
- 3 Documentation
- 4 Asset Allocation Strategies**
- 5 Investment Policy Statement
- 6 Safe Harbors
- 7 Service Providers
- 8 Schedule A
- 9 Schedule B
- 10 Schedule C
- 11 Conclusions

Admin Options

Notify Analyst

Notify Client

Edit

ASSET ALLOCATION STRATEGIES

8. Is the approach used by the Steward to formulate asset allocation strategies sound (i.e. does it produce reasonable and objective strategy recommendations)?

Comments:

<input type="radio"/>	Yes	<input type="text"/>
<input type="radio"/>	No	<input type="text"/>

Evidence: The Steward may apply an internal methodology and have available appropriate tools to help establish diversified portfolios. It is more common for the Steward to rely upon external investment professionals (e.g., investment advisors, fiduciary advisers, pension consultants, etc.) to make recommendations in this area. In either case, it is the Steward's responsibility to assure that the methodology and tools used produce realistic and objective outcomes. Therefore, the underlying asset allocation methodology and tools relied upon must be verified as being sound. Generally, it is expected that asset allocation decisions will be based upon either (1) widely available computer tools such as mean-variance optimizers and Monte Carlo simulation, or (2) model portfolios that have been prepared using these same type of statistical programs. If this is the case, the approach can be evaluated by completing the information called for in 8.a) and 8.b), below. If the Steward relies upon some other approach, describe it under 8.c. in sufficient detail to support your finding that it is, or is not, sound.

8.a) Enter the capital markets inputs used to formulate asset allocation strategies (or use CEFEX Data Table Document).

Review Output



- Full EAF including Designee comments:
 - Can *exclude* Analyst comments if necessary
- Part 3 only, including comments (coming soon)
- Designee can provide separate fi360 reports to accompany this output:
 - fi360 Monitoring Report
 - fi360 Fee & Expense Report

Electronic Assessment Form

for
Investment Stewards
 CEFEX Certification Program



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 Toronto, Ontario Canada
 M4E 1G3
 416-693-9733

Registration Type:	Investment Steward
Standard:	"Prudent Practices for Investment Stewards", published by fi360, Bridgeville, PA.
Version:	3.6
Notes:	<ul style="list-style-type: none"> - Prepared by CEFEX, Centre for Fiduciary Excellence, LLC - For the exclusive use of CEFEX certification candidates and Analysts performing CEFEX assessments. The format, process, practices, and procedures of this workbook are PROPRIETARY. No portions of this form may be reproduced without the permission of CEFEX. - CEFEX acknowledges the co-development by fi360 of this workbook.

Instructions for CEFEX Candidates

The purpose of this Electronic Assessment Form is for the CEFEX Candidate to provide evidence of adherence to the Standard.

If this is an Initial Assessment, the CEFEX Candidate is requested to:

- a) Respond to questions in this Form
- b) Call your Analyst as necessary to complete the Form
- c) When complete, click "Notify Analyst", and an e-mail will be sent automatically to your Analyst.

If this is a renewal assessment, the CEFEX Candidate is requested to:

- a) Report any significant changes in its operations within this Form. Please enter comments in the appropriate areas of the Form.
- b) Report on any outstanding Opportunities for Improvement (OFI) issued during previous assessments. This is done directly with your

Source: CEFEX

EAF Fees



- When sold by CEFEX:
 - Designee pays \$500 per eCRFP established.
- When sold by Designee:
 - Designee pays \$400 for first eCRFP in 12 months, and \$75 for each additional eCRFP in that 12 month period.



If You Have a Review Prospect and Plan to use the EAF



1. Contact Chuck at cburger@cefex.org for “CEFEX Designee Agreement”
2. E-mail signed agreement and client info to Chuck:
 - Name of plan, name of liaison officer, e-mail address, does client want on-line access?
3. Pay fee (check, credit card, or invoice)
4. Receive login ID and password
 - Client receives login ID and password (optional)
5. Basic training on EAF from Chuck



The following Steward CAFE items are excluded from the associated CRFP:

- Certain administrative data
- Questions 8.a) – 8.c): Capital market inputs and calculation of risk/return
- Table 1: Cash Flows
- Questions 10.b) – 10.d): Risk/return calculations
- Questions 14.a) – 14.d): Investment options due diligence
- Tables 5 & 6: Tables remain, but # of clients/participants and asset levels not required
- Table 7: Other managed investments and balances

Steward CRFP vs. CAFE Continued



The following Steward CAFE items are excluded from the associated CRFP:

- Tables 8-11: Safe harbor details
- Question 16.e): Principal transactions
- Tables 12-14: Service provider details
- Questions 24 & 25: DRP and client data safeguards
- Schedule A: Service agreement disclosure checklist [408(b)(2)]
- Schedule B: ERISA 3(38) Investment Manager checklist
- Schedule C: Participant disclosures checklist [404(a)(5)]
- Part 3: Practices “conforms / does not conform” checklist; Criteria have been removed

What Comes Next?



- Review your own practice utilizing the CRFP
- Introduce the CRFP to clients and prospects
- Pursue and obtain a CEFEX certification
- Contact CEFEX or fi360 with questions