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global fiduciary insights

SELF-ASSESSMENT *of* FIDUCIARY EXCELLENCE *for*

INVESTMENT ADVISORS

SAFE

Defining a Global Fiduciary Standard of Excellence

LEVEL 1 ASSESSMENT

For professionals who provide investment advice, including financial advisors, broker-consultants, investment consultants, wealth managers, financial consultants, trust officers, financial planners, and fiduciary advisers.

U.S. EDITION

This Self-Assessment of Fiduciary Excellence (SAFE) is provided to assist Investment Advisors in analyzing how well their organization meets the Global Standard of Fiduciary Excellence defined by the Center for Fiduciary Studies.

Each question corresponds to a Criterion from the *Prudent Practices for Investment Advisors* handbook. Responding "yes" to a question indicates that the fiduciary requirement or best practice that it is based upon is being fulfilled. Answering "no" or "I don't know" to any question indicates that a potential breach, omission, or shortfall is occurring within the investment decision-making process and should trigger an inquiry into the circumstances to determine if any action is required.

The SAFE is a Level 1 Assessment that any Advisor can use to quickly assess their understanding of, and compliance to, a fiduciary standard of care. A Level 2 Assessment, known as a Consultant's Review of Fiduciary Practices (CRFP), provides a more detailed analysis of the Investment Advisor's practices. A Level 3 Assessment, known as a CEFEX Assessment of Fiduciary Excellence (CAFE), is an independent verification of an Investment Advisor's conformity to all Practices and Criteria that comprise the Global Standard of Fiduciary Excellence. A successful Level 3 Assessment results in formal recognition, or "Certification," from CEFEX and implies that a fiduciary can demonstrate adherence to the industry's best practices, and is positioned to earn the public's trust.

SAFE

FIDUCIARY ASSESSMENTS ALSO ARE AVAILABLE FOR INVESTMENT STEWARDS, INVESTMENT MANAGERS, INVESTMENT SUPPORT SERVICES, RECORD KEEPERS AND THIRD PARTY ADMINISTRATORS, AND FOR ARRANGEMENT AUDITS AS REQUIRED BY THE 2006 PENSION PROTECTION ACT.

For more information on the Global Standard of Fiduciary Excellence, please visit www.fi360.com.
For more information on fiduciary assessments, please visit www.cefex.org.

THE NUMBER REFERENCED AFTER EACH QUESTION REPRESENTS THE CORRESPONDING CRITERIA IN THE

PRUDENT PRACTICES *for* INVESTMENT ADVISORS HANDBOOK

① Does the Investment Advisor comply with all fiduciary laws and rules that apply to the Advisor's services? **(1.1.1)**

② Does the Investment Advisor comply with all applicable Practices and Procedures defined in the Prudent Practices handbook? **(1.1.2)**

③ Does the Investment Advisor adhere to the professional standards of conduct and code(s) of ethics required by law, regulation, their organization or employer, and all other applicable organizations in which they are a member? **(1.1.3)**

④ Are investments held in trust managed in accordance with the documents governing the trust? **(1.2.1)**

⑤ Are investments managed and investment services provided in accordance with governing documents, including the investment policy statement? **(1.2.2)**

⑥ Are documents pertaining to the investment management process, including records of decisions made by the client, organized and retained in a centralized location? **(1.2.3)**

⑦ Are the roles and responsibilities of all involved parties documented in the investment policy statement? **(1.3.1)**

⑧ Have all involved parties acknowledged their fiduciary or non-fiduciary status in writing? **(1.3.2)**

⑨ Do investment committees have a defined set of by-laws or operating procedures to which they adhere? **(1.3.3)**

⑩ Has the Investment Advisor documented a disaster recovery plan that is reviewed and tested periodically? **(1.3.4)**

⑪ Are policies and procedures for overseeing and managing conflicts of interest, including self-dealing, defined? **(1.4.1)**

⑫ Are conflicts of interest avoided when possible and always when required by law, regulation and/or governing documents? **(1.4.2)**

⑬ Are unavoidable conflicts of interest disclosed in writing to the client and managed in the best interest of the client or beneficiaries? **(1.4.3)**

⑭ When an avoidable conflict of interest exists, is the conflict explained and is informed written consent obtained from the client?**(1.4.4)**

⑮ Does the Investment Advisor fully disclose in writing all compensation arrangements and affiliations involved in the service agreement between the client and Advisor, as well as the Advisor's services and fiduciary status? **(1.5.1)**

⑯ If the Investment Advisor is responsible for oversight of other service providers, do the service agreements of those providers disclose all compensation, affiliations, and fiduciary status (if fiduciary status is assumed by the service provider)? **(1.5.2)**

⑰ Are agreements periodically reviewed to ensure consistency with the needs of the client? **(1.5.3)**

⑱ Are comparative reviews of service agreements for which the Investment Advisor is responsible conducted and documented approximately every three years? **(1.5.4)**

⑲ Does the Investment Advisor have a reasonable basis to believe the assets are within the jurisdiction of a viable judicial system? **(1.6.1)**

⑳ Do ERISA fiduciaries have the required fidelity bond, if applicable? **(1.6.2)**

㉑ If the Investment Advisor's firm custodies client assets, does the firm have appropriate insurance, internal controls, and physical security measures to reasonably protect against theft and embezzlement? (1.6.3)

㉒ If within the scope of the Investment Advisor's engagement, does the Investment Advisor verify that service providers who custody client assets have appropriate insurance? (1.6.4)

㉓ Are appropriate procedures in place to secure client or plan data? (1.6.5)

㉔ Are sources, timing, distribution, and use of each client's cash flows documented? (2.1.1)

㉕ In the case of a defined benefit retirement plan client, has an appropriate asset/liability study been factored into the time horizon? (2.1.2)

㉖ In the case of a defined contribution retirement plan client, do the investment options provide for a reasonable range of participant time horizons? (2.1.3)

㉗ In the case of a foundation or endowment, has a schedule of expected receipts and disbursements of gifts and grants been factored into the time horizon to the extent possible and has an estimated equilibrium spending rate been established? (2.1.4)

㉘ In the case of a retail investor, has an appropriate needs-based analysis been factored into the time horizon? (2.1.5)

㉙ Is the level of volatility the client's portfolio is exposed to understood by the Investment Advisor and communicated to the client, and the quantitative and qualitative factors that were considered documented? (2.2.1)

㉚ Have "large loss" scenarios been identified and considered in establishing each client's risk tolerance level? (2.2.2)

㉛ Have expected disbursement obligations and contingency plans been considered in order to establish liquidity requirements for the portfolio? (2.2.3)

㉜ In the case of a defined contribution retirement plan client, do the investment options provide for a reasonable range of participant risk tolerance levels? (2.2.4)

㉝ Is the expected return for each portfolio consistent with the client's risk level and investment goals and objectives? (2.3.1)

㉞ Are the expected return assumptions for each asset class based on reasonable risk-premium assumptions? (2.3.2)

㉟ For defined benefit plans, are the expected return values used for modeling reasonable and are also used for actuarial calculations? (2.3.3)

㊱ For defined contribution plans, are the expected return assumptions for pre-diversified options, such as target date funds or model portfolios, based on reasonable risk/premium assumptions? (2.3.4)

㊲ For endowments and foundations, are the expected return values used for modeling reasonable and consistent with distribution requirements or the projected equilibrium spending rate? (2.3.5)

㊳ Are assets appropriately diversified to conform to each client's specified time horizon and risk/return profile and to reduce non-systemic risk? (2.4.1)

㊴ For participant-directed plans, do selected asset classes provide each participant the ability to diversify their portfolio appropriately given their time horizon and risk/return profile? (2.4.2)

㊵ Are the methodology and tools used to establish appropriate portfolio diversification for each client prudent and consistently applied? (2.4.3)

㊶ Does the Investment Advisor have the time, resources, and requisite knowledge and skills to implement and monitor all selected asset classes for each client? (2.5.1)

㊷ Are the process and tools used to implement and monitor investments in the selected asset classes appropriate? (2.5.2)

43 Are appropriate investment products accessible within each selected asset class? (2.5.3)

44 Does the investment policy statement identify the bodies of law governing the portfolio? (2.6.1)

45 Does the investment policy statement define the duties and responsibilities of all parties involved? (2.6.2)

46 Does the investment policy statement specify risk, return, and time horizon parameters? (2.6.3)

47 Does the investment policy statement define diversification and rebalancing guidelines consistent with risk, return, and time horizon parameters? (2.6.4)

48 Does the investment policy statement define due diligence criteria for selecting investment options? (2.6.5)

49 Does the investment policy statement define procedures for controlling and accounting for investment expenses? (2.6.6)

50 Does the investment policy statement define monitoring criteria for investment options and service vendors? (2.6.7)

51 Are each client's goals and objectives evaluated to determine whether socially responsible investing is appropriate and/or desirable? (2.7.1)

52 If a client has elected a socially responsible investment strategy, does the client's investment policy statement document the strategy, including appropriate implementation and monitoring procedures? (2.7.2)

53 Are reasonable criteria identified for each due diligence process used to select service providers? (3.1.1)

54 Is the due diligence process used to select each service provider documented? (3.1.2)

55 Is each due diligence process used to select service providers consistently applied? (3.1.3)

56 Are applicable ERISA safe harbor requirements pertaining to the delegation of investment responsibility implemented in compliance with regulatory requirements, when elected? (3.2.1)

57 For participant-directed qualified retirement plans, are applicable 404(c) safe harbor requirements implemented in compliance with ERISA requirements, when elected? (3.2.2)

58 For participant-directed qualified retirement plans, are applicable fiduciary adviser safe harbor requirements implemented in compliance with ERISA requirements, when elected? (3.2.3)

59 For participant-directed qualified retirement plans, are qualified default investment alternatives (QDIA) implemented in compliance with ERISA requirements, when elected? (3.2.4)

60 For non-ERISA services, are safe harbors and exemptions implemented in compliance with regulatory requirements, when elected? (3.2.5)

61 Is a documented due diligence process, consistent with prudent practices and generally accepted investment theories, used to select investments and third party Investment Managers? (3.3.1)

62 Do decisions regarding the selection of investments consider both qualitative and quantitative criteria? (3.3.2)

63 Is the documented due diligence process used to select investments and third party Investment Managers consistently applied? (3.3.3)

64 Are regulated investments preferred over unregulated investments when all other characteristics are comparable? (3.3.4)

65 Are investments that are covered by readily available data sources preferred over similar investments for which limited coverage is available when all other characteristics are comparable? (3.3.5)

66 Are decisions regarding passive and active investment strategies documented and made in accordance with obligations of care? (3.3.6)

67 Are decisions regarding the use of separately managed and commingled accounts, such as mutual funds, unit trusts, exchange-traded products, and limited partnerships, documented and made in accordance with obligations of care? (3.3.7)

68 Are decisions to use complex investments or strategies, such as alternative investments or strategies involving derivatives, supported by documentation of specialized due diligence conducted by professionals who possess knowledge and skills needed to satisfy the heightened obligation of care? (3.3.8)

69 When socially responsible investment strategies are elected, are the strategies implemented appropriately? (3.3.9)

70 Is the performance of each investment option periodically compared against an appropriate index, peer group, and any other performance related due diligence criteria defined in each client's investment policy statement? (4.1.1)

71 Are "watch list" procedures for underperforming Investment Managers documented, and consistently applied? (4.1.2)

72 Are rebalancing procedures reasonable, documented, and consistently applied? (4.1.3)

73 Are periodic evaluations of the qualitative factors that may impact the results or reliability of Investment Managers performed? (4.2.1)

74 Are negative news and other material information regarding an Investment Manager or other service provider considered and acted on in a timely manner? (4.2.2)

75 Are deliberations and decisions regarding the retention or dismissal of Investment Managers and other service providers documented? (4.2.3)

76 Are qualitative factors that may impact service providers considered in the contract review process? (4.2.4)

77 Are control procedures in place to periodically review each Investment Manager's policies for best execution? (4.3.1)

78 Are control procedures in place to periodically review each Investment Manager's policies for special trading practices such as "soft dollars", directed brokerage, and commission recapture? (4.3.2)

79 Are control procedures in place to periodically review each Investment Manager's policies for proxy voting? (4.3.3)

80 Has a summary of all parties being compensated from client portfolios or from plan or trust assets and the amount of compensation been documented? (4.4.1)

81 Are fees, compensation, and expenses paid from client portfolios or from plan or trust assets periodically reviewed to ensure consistency with all applicable laws, regulations, and service agreements? (4.4.2)

82 Are fees, compensation, and expenses paid from client portfolios or from plan or trust assets periodically reviewed to ensure such costs are fair and reasonable based upon the services rendered and the size and complexity of the portfolio or plan? (4.4.3)

83 Are fiduciary assessments conducted at planned intervals to determine whether (a) appropriate policies and procedures are in place to address all fiduciary obligations, (b) such policies and procedures are effectively implemented and maintained, and (c) the investment policy statement is reviewed at least annually? (4.5.1)

84 Are fiduciary assessments conducted in a manner that promotes objective analysis and results documented and reviewed for reasonableness? (4.5.2)

for INVESTMENT ADVISORS

PRACTICE 1.1
The Investment Advisor demonstrates an awareness of fiduciary duties and responsibilities.

PRACTICE 1.2
Investments and investment services provided are consistent with applicable governing documents.

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

PRACTICE 1.4
The Investment Advisor identifies conflicts of interest and addresses conflicts in a manner consistent with the duty of loyalty.

PRACTICE 1.5
Agreements, including service provider agreements under the supervision of the Investment Advisor, are in writing and do not contain provisions that conflict with fiduciary standards of care.

PRACTICE 1.6
Client assets are protected from theft and embezzlement.

PRACTICE 2.1
An investment time horizon has been identified for each investment objective of the client.

PRACTICE 2.2
An appropriate risk level has been identified for each client.

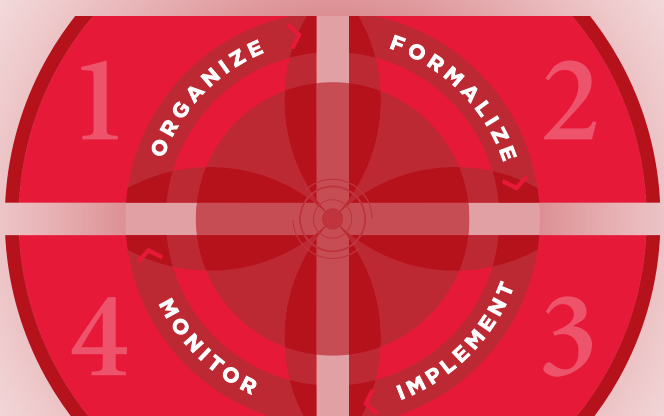
PRACTICE 2.3
An expected return to meet each investment objective has been identified.

PRACTICE 2.4
Selected asset classes are consistent with the client's time horizon and risk and return objectives.

PRACTICE 2.5
Selected asset classes are consistent with implementation and monitoring constraints.

PRACTICE 2.6
The investment policy statement contains sufficient detail to define, implement, and monitor the client's investment strategy.

PRACTICE 2.7
When socially responsible investment strategies are elected, the strategies are structured appropriately.



PRACTICE 3.1
A reasonable due diligence process is followed to select each service provider in a manner consistent with obligations of care.

PRACTICE 3.2
When statutory or regulatory investment safe harbors are elected, each client's investment strategy is implemented in compliance with the applicable provisions.

PRACTICE 3.3
Decisions regarding investment strategies and types of investments are documented and made in accordance with fiduciary obligations of care.

PRACTICE 4.1
Periodic reports compare investment performance against appropriate index, peer group, and investment policy statement objectives.

PRACTICE 4.2
Periodic reviews are made of qualitative and/or organizational changes of Investment Managers and other service providers.

PRACTICE 4.3
Control procedures are in place to periodically review policies for trading practices and proxy voting.

PRACTICE 4.4
Periodic reviews are conducted to ensure that investment-related fees, compensation, and expenses are fair and reasonable for the services provided.

PRACTICE 4.5
There is a process to periodically review the organization's effectiveness in meeting its fiduciary responsibilities.

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ISBN 978-0-9890490-2-3

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RRD8M04_13