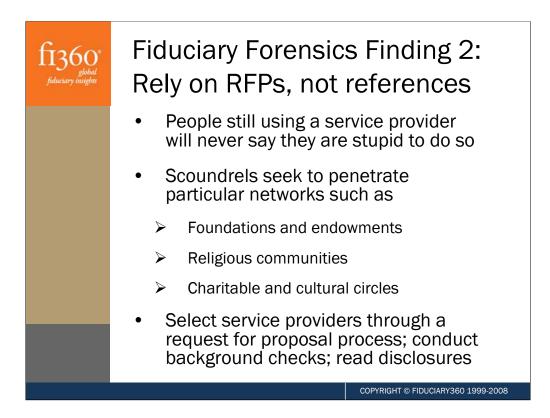




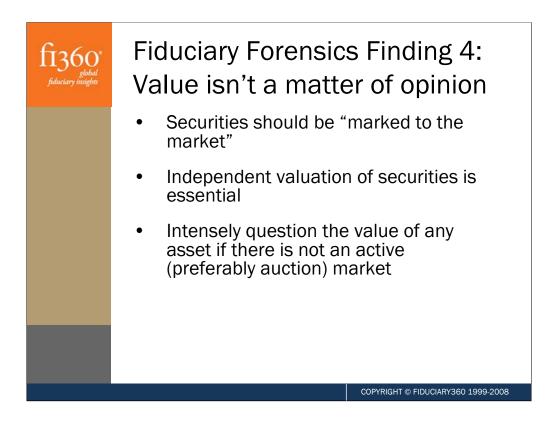
# <section-header><section-header>

# fi360 Why so many scandals? Incredible rewards for short term • success No perceived penalties for long term failures (moral hazard) • Crony (false) capitalism • **Regulatory capture** $\triangleright$ Lack of transparency and meaningful $\triangleright$ regulation Ignorance of, or inattention to, fiduciary responsibilities • COPYRIGHT © FIDUCIARY360 1999-2008

### Fiduciary Forensics Finding 1: fi360 The best defense is a great IPS We should never hear: "They had it made ٠ and then lost it all." Know when what we have is enough $\geq$ $\triangleright$ Diversify assets unless it is clearly prudent not to do so ⊳ Always diversify investment managers The IPS is the management plan ≻ Roles and responsibilities $\triangleright$ Due diligence procedures $\triangleright$ **Risk management policies** COPYRIGHT © FIDUCIARY360 1999-2008



# Fiduciary Forensics Finding 3: fi360 Self-custody is a big red flag Advisors should never take custody of assets • Statements can be readily manufactured ٠ Checks and balances are essential ≻ Administration: Custodians, TPAs, Recordkeepers Managers ≻ Advisors $\triangleright$ Trading firms (broker-dealers) $\triangleright$ COPYRIGHT © FIDUCIARY360 1999-2008





# Fiduciary Forensics Finding 6: Alternatives aren't for everyone

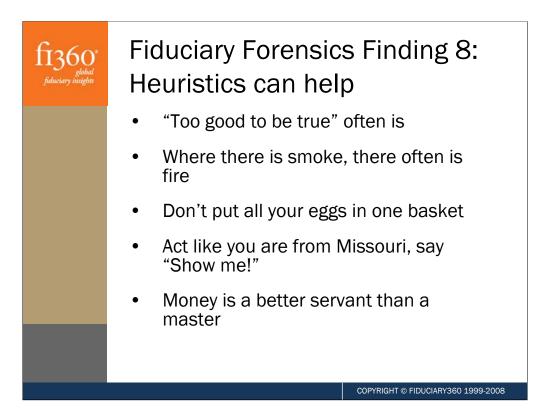
- Alternatives are generally not:
  - Regulated

fi360

- Transparent
- Easily valued
- ➤ Liquid
- Alternatives are generally:
  - > Extremely profitable for the providers
  - Difficult to understand
- Extraordinary due diligence is required

COPYRIGHT © FIDUCIARY360 1999-2008

## Fiduciary Forensics Finding 7: fi360 Key systems should be audited Financials - (AICPA recognized auditor) • Performance (GIPS) ٠ Control Procedures (CEFEX\*/ASPPA Recordkeeper Certification; SAS 70) Investment Fiduciary Practices (CEFEX\* • Certifications of Stewards, Advisors, and Managers) Fiduciary Adviser (DOL requirements) \* Disclosure: fi360 is a founding member of, and has an ownership interest in, CEFEX COPYRIGHT © FIDUCIARY360 1999-2008



# Trusted professionals?

fi360

- Financial scandals, on top of market meltdowns, have destroyed trust
- Financial service representatives are not held in high regard
- Investment fiduciaries Stewards, Advisors, and Managers – are in the best position to restore trust by exposing scoundrels and thieves and preventing future scandals

COPYRIGHT © FIDUCIARY360 1999-2008

### fi360 Legislative & Regulatory Trends More transparency and exemption-oriented • rules ≻ PPA statutory fiduciary advisor exemption Class exemption for conflicted advisers $\geq$ $\triangleright$ 408(b)(2) Rules-based regulations can be effective but ٠ are inefficient (*Fiduciary Lite*) Principles-based (Fiduciary) approach is both • more effective and efficient (NASAA initiative) Bottom line: The rules-based approach is, at best, a transitory phenomenon. COPYRIGHT © FIDUCIARY360 1999-2008

fi360" global fiduciary insights	Ca	Call to action		
	1.	Raise your fiduciary IQ and professional reputation	oolish your	
	2.	Counter market and economic uncertainty with rustworthy fiduciary processes.		
	3.	eek simplicity: business models, fees, ffiliations, disclosures, communications, etc.		
	4.	Play great defense: market, and business risks are at al		
	5.	Hold legislators, regulators, professional associations, and service providers accountable		
	6.	Go to fi360.com for more information and to the fi360 Blog ( <u>blog.fi360.com</u> ) to continue this discussion.		
			COPYRIGHT © FIDUCIARY360 1999-2008	