

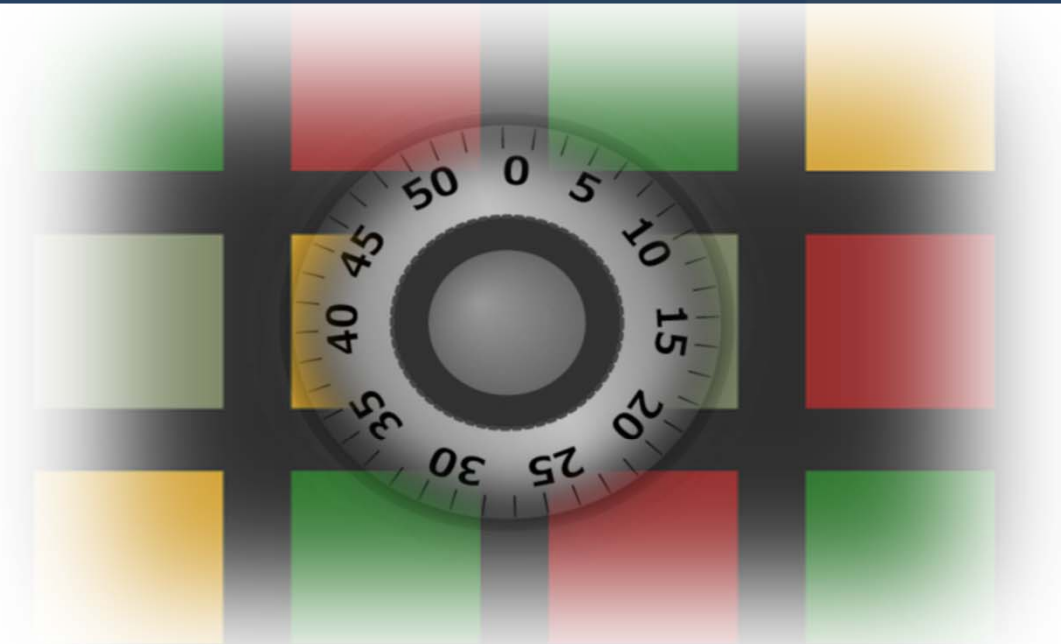
The *E-Valuator*

"Customize and Control your Performance Tolerance"

DUE DILIGENCE GUIDE

for the

Financial Professional



Developed in consultation with Jason C. Roberts and Bonnie
Treichel of Retirement Law Group, PC.

ADVISOR GUIDE TO THE E-VALUATOR¹

The landscape continues to change in the retirement plan marketplace. Competition is heating up among financial professionals² while new regulations are putting downward pressure on fees. At the same time, the new rules are causing plan sponsors to increasingly rely upon a more expansive set of services from their advisors and consultants.

As margins narrow, financial professionals are looking for opportunities to become more efficient while managing risks for themselves and their clients. This Advisor Guide examines the top three challenges facing retirement plan professionals and demonstrates how the unique features and functionality of The E-Valuator, a fund research and analytics tool, can provide repeatable solutions to these challenges while delivering opportunities to differentiate and scale the delivery of your investment-related services.

Challenge 1: One Size Rarely Fits All

Retirement plan professionals typically serve a broad client base across multiple industries with varying degrees of size, investment-related sophistication and risk tolerances. To manually track these preferences on a client-by-client basis can, at a minimum, create inefficiencies and drive up your costs. Inconsistency can also lead to increased exposure when reports have to be tweaked or supplemented to align with a given client's unique goals and expectations.





Solution: Preprogrammed, Customizable Metrics

The E-Valuator's unique methodology allows you to "hard code" fund selection and screening criteria to reflect your clients' "Performance Tolerance" with respect to the following criteria:

1. Rate-of-return/performance – by defining the target performance and/or permissible variance above or below peer groups or benchmarks;
2. Duration – establishing a time period for which the lagging performance will be tolerated; and
3. Credit Attribution – allowing credits to be assigned to various performance timeframes depending upon the needs and preferences of the plan.

Using a user-friendly interface, you can work with each client to "dial in" their preferences with respect to the above criteria, and all reports will automatically be aligned with the client's goals and tied to their Investment Policy Statement (IPS).

Customize Tolerances, Watch Lists & IPS Integration

	<p>A straight-forward "dial" interface allows the plan fiduciaries to specify the plan's Performance Tolerance by the amount of: 1) desired excess return above the benchmark; and 2) tolerable lagging return or underperformance.</p>
	<p>Performance timeframes, from 10-year to 2-year annualized to 1-year to 1-month total return, are assigned credits to produce the optimal performance score based upon the most important time periods for each asset class as determined by the plan fiduciaries.</p>
	<p>Sliders are used to establish the duration for which outperformance or underperformance would trigger keep, watch or replace status in monitoring reports and sets criteria for selection.</p>
	<p>Monitoring reports use green, yellow and red to simplify keep, watch and replace triggers based upon the plan's preferences and the IPS.</p>

An optional "tolerance wizard" can be launched in a separate pop-up window to provide guidance when establishing tolerance settings. The E-Valuator then captures each client's expectations, which are reflected in all reports and analysis going forward, eliminating the time and risk of having to manually track and adjust the output for each client.

Challenge 2: Keeping Clients Informed

In an era of heightened scrutiny, plan sponsors require more frequent communication and

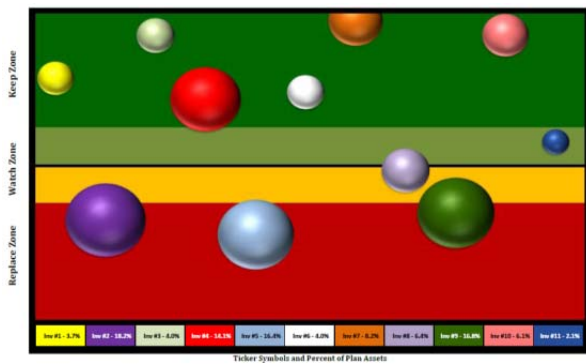
¹ This guide was developed in consultation with Jason C. Roberts and Bonnie Treichel of Retirement Law Group, PC and is designed to educate financial professionals on the unique features and benefits of using The E-Valuator to facilitate the delivery of investment-related services to retirement plan clients.

² Financial professionals collectively refers to registered and investment advisory representatives of broker-dealers and registered investment advisors, respectively as well as insurance agents and plan consultants.

documentation; yet, many of the investment analytics and monitoring tools still require you to manually produce the reports and physically disseminate them to your clients or download and email on a client-by-client basis. As discussed above, it is likely that some of your clients have varying degrees of sophistication and expectations. Some clients may desire a high degree of detail and analysis, while others may not have the ability to properly interpret every aspect of fund due diligence. Certain clients may elect to receive reports quarterly, and others may require greater or lesser frequency.

Solution: Custom Reports & Systematic E-Delivery

The E-Valuator allows you and your clients to choose from a wide array of reports showing how funds are performing within the “Performance Tolerances,” against their peer groups (e.g., alpha, beta, Sharpe Ratio, standard deviation, etc.) or pursuant to watch list or IPS criteria. Less sophisticated clients, for example, may simply want a snapshot of the status of the funds and the amount invested. The E-Valuator’s proprietary “Bubble Chart” below uses a traditional green, yellow and red approach to watch list criteria, but the size of each bubble represents the amount of plan assets in each fund.



For clients that desire a more detailed view, performance, trending analysis and specific metrics can be displayed in a more traditional composite report that, again, will automatically incorporate the client’s unique preferences.

	5 Qtrs. Back			4 Qtrs. Back			3 Qtrs. Back			Previous Qtr.			Recent Qtr.			MTD
	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	
5 Yr. Ind.	28.25%	27.69%	28.93%	33.09%	28.70%	23.52%	22.88%	23.97%	20.91%	21.56%	18.94%	21.45%	20.39%	18.52%	18.92%	20.04%
5 Yr. Ind. Peer Group	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8
3 Yr. Ind.	21.89%	20.23%	19.87%	20.16%	16.80%	11.39%	12.32%	16.05%	15.05%	20.83%	22.80%	17.59%	17.38%	17.92%	13.44%	13.38%
3 Yr. Ind. Peer Group	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8	18.8
1 Yr. Ind.	26.37%	23.97%	24.58%	26.65%	26.51%	15.09%	23.00%	23.80%	18.65%	20.37%	15.58%	20.21%	19.92%	19.40%	14.27%	16.80%
1 Yr. Ind. Peer Group	12.1	13.2	15.1	17.0	12.2	6.7	6.7	10.8	8.6	9.4	11.2	8.1	5.5	5.3	5.1	5.1
1 Yr. Ind. Peer Group	41.27%	45.10%	38.97%	46.94%	32.08%	25.18%	14.22%	26.89%	18.21%	15.42%	3.61%	4.89%	1.29%	1.78%	6.90%	0.07%
6 Mo. Ind.	8.8	12.2	16.0	16.0	16.0	16.0	14.0	15.5	16.0	19.0	16.0	—	—	—	—	—
6 Mo. Ind. Peer Group	19.8	11.2	13.0	13.0	12.0	6.5	6.6	13.0	—	—	1.2	—	—	—	—	—
3 Mo. Ind.	11.43%	8.68%	8.42%	11.64%	1.19%	-7.06%	-12.62%	0.54%	1.33%	6.00%	-8.29%	2.71%	-2.22%	3.04%	-7.79%	2.59%
3 Mo. Ind. Peer Group	2.1	6.6	10.0	10.0	10.0	—	—	6.8	10.0	10.0	1.1	—	—	—	—	—
1 Mo. Ind.	3.23%	3.91%	1.68%	6.30%	-8.81%	-7.16%	0.04%	8.20%	-4.43%	-4.71%	-4.30%	2.67%	-0.32%	0.79%	-3.24%	4.62%
1 Mo. Ind. Peer Group	2.2	8.0	8.0	8.0	—	—	8.0	—	5.4	5.5	—	—	—	—	—	—
Total Assets	73.9	87.2	99.1	100.0	88.2	66.1	66.3	89.2	72.6	71.7	88.8	40.5	35.1	34.5	35.2	—
Monthly Indicator	K	K	K	K	K	K	K	K	K	K	R	R	R	R	R	R

To facilitate on-time delivery to the client at their desired frequency, The E-Valuator allows you to enter standing electronic delivery instructions specifying the nature, timing and recipient(s). Once established, The E-Valuator will systematically process the instructions and email the reports to you and your clients automatically.

Challenge 3: Managing Expenses & Conflicts

Your clients are held to a fiduciary standard of care when selecting funds and service providers, and ERISA requires them to investigate the impact of fees and potential conflicts when making such decisions. The DOL, SEC and FINRA have continued to focus on un-level compensation and conflicts of interest.

Indeed, FINRA’s 2015 exam priorities remind registered representatives of broker-dealers of its continued “focus on fee and compensation structures that lie at the heart of many conflicts.”³ Investment advisors, on the other hand, are firmly in the crosshairs of the Fiduciary Service Provider Compensation Project,⁴ an outgrowth of an interagency initiative between the DOL and SEC also focusing on conflicts of interests. If you recommend a fund that results in additional compensation paid to you or your affiliates (e.g., broker-dealer), you may be held personally liable for engaging in a prohibited transaction.

Whether or not you are a provider of investment fiduciary services, you may nevertheless be required to investigate the nature and amounts of investment-related fees paid from plan investment options for your client. Many providers, for

³ See FINRA (January 6, 2015), available at: <https://www.finra.org/web/groups/industry/@ip/@reg/@guide/documents/industry/p602239.pdf>.

⁴ See DOL “ERISA Enforcement” available at: http://www.dol.gov/ebsa/erisa_enforcement.html.

example, may have a set amount of required revenue that must be derived from the expense ratios of plan investments to maintain the agreed-upon level of services or pricing.

While level compensation platforms are becoming more common, many providers still pass the investment-related expenses directly to service providers. Even plans that have access to Plan Expense Recapture Accounts (PERAs) or “ERISA budgets” may benefit from an easier ability to monitor revenue sharing and reimbursements if they can limit their funds to identifiable share classes with predetermined expense ratios.

However, many investment analytics tools do not track investment expenses (e.g., 12b-1 fees) on a fund-by-fund basis. This inability to verify and report on fund expenses may result in additional lost time or risk for you and your clients.

Solution: Incorporate Expenses into Search Criteria

The E-Valuator allows the Investment Finder to be programmed to limit the universe of available funds to match a predetermined amount of revenue derived from the fund’s internal operating expense. For example, if the plan sponsor determines 30 bps to be a reasonable amount of ongoing compensation to be paid to the broker-dealer, the Investment Finder will only show available funds that pay a 30 bps 12b-1 fee.

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Prior to founding PRI and RLG, Jason was a partner and co-chair of the Financial Services Group at a leading ERISA law firm and the head of the Investment Fiduciary practice for a prominent securities industry legal defense firm.



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Bonnie is a shareholder in the Retirement Law Group, PC, a law firm that provides counsel on ERISA- and investment-related matters. Bonnie is also the Vice President, Product Development, of the Pension Resource Institute (PRI), providing strategic consulting, education, and technology-based solutions for retirement plan service providers and plan sponsors. Bonnie’s day-to-day focus is on review of legal matters facing the organization and its clients, as well as product development and the firm’s technological initiatives.

Prior to joining PRI, Bonnie was an associate with Edgerton and Weaver, where her practice was dedicated to civil litigation for financial services clients, both brokerage firms and individuals, in matters before state and federal courts, FINRA, the SEC and other regulatory bodies.

In the event the universe of 30 bps funds within a certain asset class is limited or non-existent on the current provider’s platform, then the Investment Finder can be programmed to display only qualifying investments that pay a specified amount of 12b-1 fees or are identical to the amount paid by the fund that is being replaced. If the plan fiduciaries specify an acceptable amount of 12b-1 for a given asset class, then your potential conflicts of interest are substantially mitigated, and the plan sponsor’s duty to track and monitor fees is significantly streamlined.

Conclusion

As competitive and compliance pressures continue to shape the retirement plan market, you should consider adopting tools that will save you and your clients valuable time while managing risks. Given the increasing reliance being placed on retirement plan professionals by plan sponsors, any opportunity to scale the delivery of your investment-related services can help you free up time necessary to focus on your existing clients’ other needs or on growing your business by prospecting additional opportunities.