

Fiduciary Insight, LLC (Fi401k) understands that sponsoring a workplace retirement savings plan is most often done with the best of intentions, yet carries a heavy burden of accountability related to investment selection and monitoring. Therefore, Fi401k strives to mitigate the employer's ancillary obligations that are imposed by the federal government under the Employee Retirement Income Security Act of 1974 (ERISA) – and diminish any corresponding liability.

ERISA does not necessarily require that a 401(k) plan maintain the highest rated, best performing or lowest cost investment alternatives. While these may be considerations a fiduciary uses in the routine administration of the plan and management of its assets, it is far more important that the plan fiduciaries define, document and follow processes that consistently demonstrate their care, prudence and diligence related to their ongoing management of the plan.

A prudent process should aid and protect fiduciaries from making arbitrary or compulsive decisions, while effectively demonstrating their care, prudence and diligence.



Therefore, independent of the retirement plan service provider or product that any company utilizes to maintain their employer-sponsored retirement plan, ERISA dictates that every fiduciary has a duty to act in the best interests of the plan, its participants and their beneficiaries. The trouble is that everybody's interpretation or definition of what constitutes "best interest" differs.

So, with regard to investments, Fiduciary Insight follows two guiding principles when assisting employer-plan sponsors with addressing this issue:

1. **Fiduciaries have a duty to defray reasonable plan expenses.** For instance, if the plan currently holds an investment option for which there is a cheaper share class available to them – it is the obligation of the fiduciary to pursue that alternative.
2. **Fiduciaries have a duty to act for the exclusive purpose of providing benefits.** For instance, if the plan has an investment option that has significantly or consistently under-performed its peers and/or applicable index – it is the obligation of the fiduciary to investigate other alternatives.

As a result, the Fi401k *Investment Comparison & Optimization (IC&O)* service is designed to facilitate the process of evaluating the competitiveness of the plan's designated investment options. Through a combination of investment expense discovery and historical performance comparisons, the majority of plan sponsors can quickly identify opportunities to gain cost efficiencies and/or access better performing investment alternatives for their company-sponsored 401(k) plan.

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Fi401k's *Investment Comparison & Optimization (IC&O)* report will provide Plan Fiduciaries a simple way to benchmark their Plan's existing Investment Options, by comparing them to publicly available alternatives. In addition, Fi401k provides an online tool for Plan Fiduciaries to develop a formal investment governance process through the drafting and adoption of an Investment Policy Statement (IPS) as well as the Investment Selection & Review Procedures (ISRP). As a result, by purchasing Fi401k's *IC&O* service, Plan Fiduciaries can demonstrate that they have performed dutifully to meet their ERISA obligations.

Expense Efficiency Analysis



The simplest of scenarios is when a 401(k) plan holds an investment option that is invested in the “retail” share class, for which an “institutional” class of the same investment vehicle exists. Thereto, “retail” shares typically carry higher internal expense ratios that may include some form of “commission” – like front/back-end loads or 12b-1 fees. So, there may be an opportunity for the plan can gain *expense efficiency* by retaining the exact same investment option, while utilizing a cheaper share class.

In addition, the vast majority of open-end mutual funds and collective investment trust instruments contain some form of shareholder servicing or sub-transfer agency fees associated with them – often referred to as “concessions”. These concessions are routinely provided to retirement plan service providers, in a practice commonly referred to as “revenue sharing”. So, independent of an investment option’s “share class”, there is often an ability to capture these concessions for the benefit of the plan.

As a result, Fi401k can provide side-by-side comparisons of the various share classes offered for each investment option as well as the available concessions associated with each; whereby almost any 401(k) plan can gain varying degrees of *expense efficiency*.

Investment Option	Ticker	OER	12b-1	Sub T.A	Fund Manager
PIMCO Total Return R	PTTRX	1.10	0.50%	0.15%	William H. Gross
PIMCO Total Return Admin	PTRAX	0.71	0.25%	-	William H. Gross
PIMCO Total Return Instl	PTTRX	0.46	-	-	William H. Gross

Performance Optimization Analysis

History has shown that there is often an inverse correlation between investment expense and performance, but this is especially true when evaluating the various share classes of the same investment vehicle. So, beyond the *expense efficiencies* that can be gained by utilizing a less expensive share class – the corresponding performance can likewise be improved by utilizing a cheaper share class.

Investment Option	Ticker	Historical Annual Total Return				Morningstar Rating
		2013	2012	2011	2010	
PIMCO Total Return R	PTTRX	-2.55	9.66	3.49	8.09	★★★★
PIMCO Total Return Admin	PTRAX	-2.17	10.08	3.91	8.56	★★★★
PIMCO Total Return Instl	PTTRX	-1.92	10.36	4.16	8.83	★★★★

However, the simple fact is that every investment manager is known for a unique set of specialties, whereby their research and management philosophy lend itself to a certain investment style. So, when evaluating investments for *performance optimization*, you must compare investments that follow the same investment style or share a common investment category.

As a result, Fi401k can provide side-by-side comparisons of the various investment alternatives that share the same investment style/category as your plan’s current investment option(s); whereby almost any plan can easily identify available investment alternatives that may have demonstrated consistently stronger performance (historically).

Investment Option	Category	Ticker	Historical Annual Total Return			Expense Ratio
			2013	2012	2011	
Nuveen Strategic Income I	Intermediate-Term Bond	FCBYX	2.11	14.04	3.55	0.60%
Managers Bond Service	Intermediate-Term Bond	MGFIX	1.06	12.04	6.06	1.00%
Frost Total Return Bond Instl	Intermediate-Term Bond	FIJEX	4.03	10.34	4.98	0.49%
TCW Total Return Bond I	Intermediate-Term Bond	TGLMX	1.66	13.41	4.13	0.44%
JHancock Bond R6	Intermediate-Term Bond	JHBSX	0.96	12.01	-	0.49%
PIMCO Total Return Instl	Intermediate-Term Bond	PTTRX	-1.92	10.36	4.16	0.46%

