

2015 ERISA Fiduciary Prudence Analysis

for

XYZ 401(k) Plan



Explanation of Analyses

- 1. Top 10 401(k) Mutual Funds Active Management Value Ratio™ (AMVR)** - A proprietary metric of InvestSense, LLC, the Active Management Value Ratio™ allows investors and fiduciaries to perform a simple cost efficiency analysis comparing an actively managed mutual fund's incremental/added cost to the fund's incremental/added benefit. A low score is the goal.
- 2. Top 10 401(k) Mutual Funds Active Management Fee Factor™ (AMFF)** - A proprietary metric of InvestSense, LLC, the Active Management Fee Factor™ allows investors and fiduciaries to perform a simple cost efficiency analysis comparing an actively managed mutual fund's incremental/added cost to the fund's relative active management component. A low score is the goal
- 3. Top 10 401(k) Mutual Funds R-Squared Ratings** – A metric that allows investors and fiduciaries to avoid unnecessary fees and expenses by identifying actively managed mutual funds whose returns show a high correlation of return with the appropriate index's or benchmark's returns. Mutual funds with high R-Squared ratings are often referred to a “closet index” funds, as their high R-Squared rating indicates that investors may be able to achieve similar or better returns at a significantly lower cost by using index-based investments. InvestSense classifies any mutual fund with an R-squared rating of 90 or above as a “closet index” fund.
- 4. Top 10 401(k) Mutual Funds Correlation Matrix** - The cornerstone of Modern Portfolio Theory, correlation of returns data allows investors and fiduciaries to work toward the goal of reducing the chance of significant losses by combining investments with a low correlation of returns in hopes of stabilizing investment returns regardless of market and/or economic conditions.
- 5. Top 10 401(k) Mutual Funds InvestSense Stress Test™** – A proprietary metric of InvestSense, LLC, the InvestSense Stress Test™ measures a fund's consistency of performance under various types of market conditions. A high score is the goal.
- 6. Top 10 401(k) Mutual Funds InvestSense Fiduciary Prudence Rating™** - A proprietary metric of InvestSense, LLC, the InvestSense Fiduciary Prudence Rating™ is a composite rating that allows investors and fiduciaries to evaluate a mutual fund based on a fund's cost efficiency, risk management efficiency, and overall consistency of performance. A high rating is the goal.

Incidental Costs and Returns

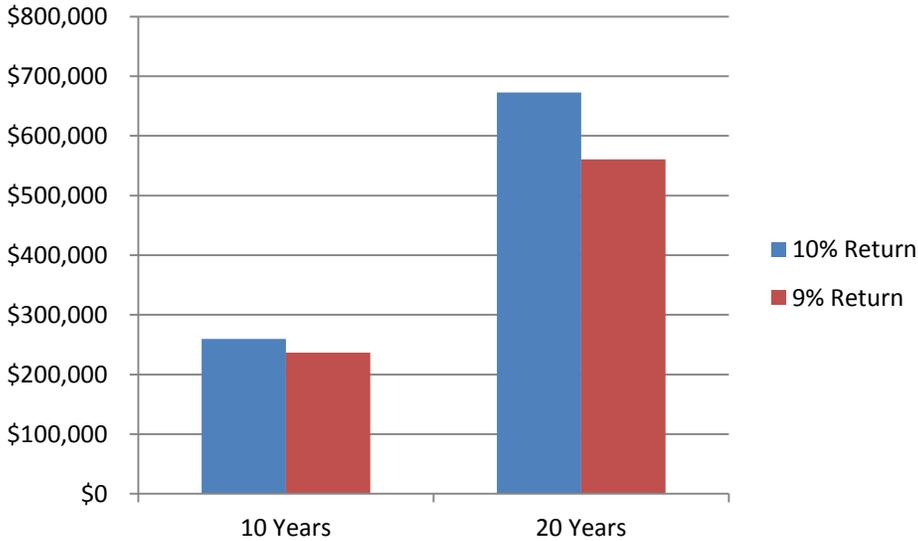
“Incidental costs and returns” refer to the extent that an actively managed mutual fund’s costs and returns exceed an appropriate index fund or benchmark. These incidental, or extra, costs and returns arguably represent the value-added aspect of an actively managed mutual fund, the additional cost or benefit derived from an investment in an actively managed mutual fund as opposed to a less costly index mutual fund providing similar or better returns.

InvestSense believes that analyzing actively managed mutual funds on the basis of incidental costs and returns provides a truer and more useful evaluation of an actively managed mutual fund’s inherent value, or prudence, than the commonly used “gross costs and returns” in that it does not credit an actively managed mutual fund for the costs and returns of the passive portion of the fund, while at the same time assessing the relative cost efficiency or cost inefficiency, of an actively managed mutual fund.

Based on our experience, the incidental cost of an actively managed mutual fund often significantly exceeds the fund’s incidental return, raising serious questions about the prudence of selecting and investing in such investments. In many cases we find that the actively managed mutual fund fails to underperform its appropriate index fund or other benchmark. In such cases, the analyses will show “NQ” to indicate such underperformance and a lack of a rating for such fund.

In assessing the cost efficiency of an actively managed mutual fund, investors and fiduciaries may consider performing the following quick analysis. Fund ABC is an actively managed mutual fund with a five-year annualized return of 12 percent and an annual management fee of 1.0 percent. An appropriate index fund for Fund ABC has a five-year annualized return of 10 percent and an annual management fee of 0.20 percent. Fund ABC would have incremental costs of 0.80 basis points (0.80) and an incremental return of 2 percent. In other words, 80 percent of Fund ABC’s annual fee would only be producing 20 percent of the fund’s five-year annualized return before even factoring taxes and the impact of other fees/costs associated with the fund, e.g., turnover and brokerage fees/costs.

Impact of Each Additional 1 Percent Mutual Fund Fees/Expenses

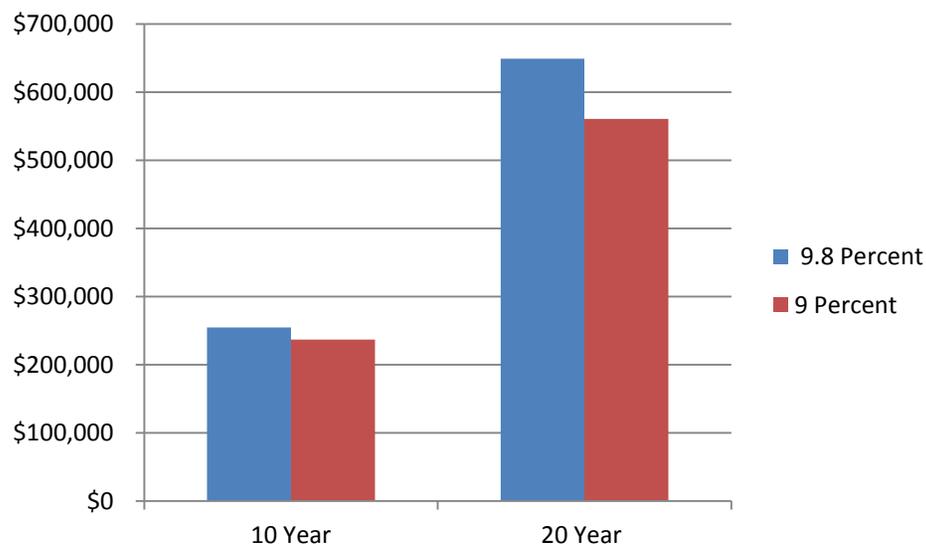


	10 Percent	9 Percent	Difference	Percent
10 Years	\$259,374	\$236,736	\$22,638	8.7%
20 Years	\$672,749	\$560,441	\$112,308	16.7%

*Assumes an initial investment of \$100,000..

The information provided herein is generic and for educational and informational purposes only and is neither intended to be, nor is to be considered, the provision of investment advisory, fiduciary, legal, accounting or other professional service. Since the proper provision of such services is dependent on the individual circumstances of an individual or entity, the appropriate professional should be consulted for the provision of such services.

Impact of Fees on Returns – Index Funds vs. Actively Managed Funds

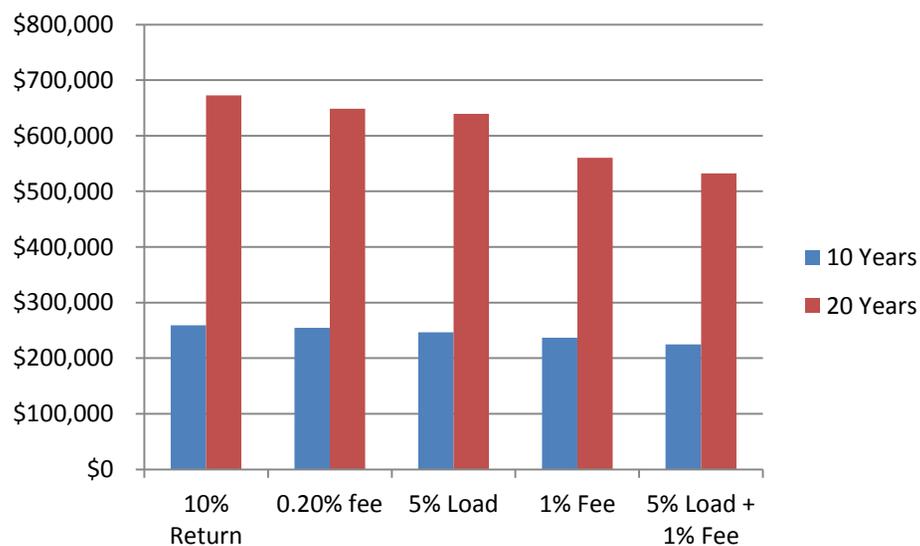


	9.8% Return	9% Return	Difference	Percent
10 Years	\$254,696	\$236,736	\$17,960	7.05%
20 Years	\$648,704	\$560,441	\$88,623	13.6%

*Assumes initial investment of \$100,000 and an annual return of 10 percent on two mutual funds having annual fees of 0.20%, and 1.0% respectively.

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Comparative Impact of Loads and Fees on Returns



	10% Return	0.20% Fee	5% Load	1% Fee	5% Load+1% Fee
10 Years	\$259,374	\$254,696	\$246,405	\$236,736	\$224,889
20 Years	\$672,749	\$648,704	\$639,111	\$560,441	\$532,419

*Assumes initial investment of \$100,000 and an annual return of 10 percent, less any noted adjustment.

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2014 XYZ 401(k) Plan Mutual Funds Active Management Value Ratio™

<u>Fund</u>	<u>AMVR™</u>
Fidelity Growth Company	46.00
Fidelity Contrafund	72.00
T. Rowe Price Growth Stock	80.00
American Funds Growth (H)	NA
American Funds Fundamental (H)	NA
American Funds Washington (H)	NA
Dodge & Cox Stock	NA
Fidelity Low Price Stock	NA
MFS Value (H)	NA
T. Rowe Price Equity Income	NA
American Funds Growth (L)	NA
American Funds Fundamental (L)	NA
American Funds Washington (L)	NA
MFS Value (L)	NA

(Based on data covering January 1, 2010 to December 31, 2014)

Disclosure

The analyses contained herein are based on past performance and information. While the information has been obtained from third parties believed to be reliable, neither InvestSense nor its owners, officers, directors and employees makes any representations as to its accuracy or assumes any liability for its accuracy, including, but not limited to, any damages resulting from reliance thereon. Past performance is no guarantee of future results. Information about and/or fees and other expenses charged by investment companies and/or on investment products are subject to change.

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2014 XYZ 401(k) Plan Mutual Funds Active Management Fee Factor™

<u>Fund</u>	<u>Stated Fee</u>	<u>AMFF™</u>
American Funds Growth (L)	0.33	1.29
American Funds Washington (L)	0.30	1.40
American Funds Fundamental (L)	0.31	1.76
Fidelity Growth Company	0.71	1.79
Dodge & Cox Stock	0.52	2.73
T. Rowe Price Growth	1.19	2.70
Fidelity Low Price Stock	0.72	2.91
Fidelity Contrafund	0.56	3.11
MFS Value (L)	0.53	4.00
American Funds Growth (H)	1.21	4.30
American Funds Washington (H)	1.39	5.36
T. Rowe Price Equity Income	1.20	5.36
American Funds Fundamental (H)	1.41	6.40
MFS Value (H)	1.63	8.52

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2014 XYZ 401(k) Plan Mutual Funds R-Squared Ratings

The following mutual funds had an R-squared rating of 90 or above. Therefore, under our scoring system, these funds would qualify as “closet index” funds and raise questions as to the prudence of investing in such funds when similar, or better performance is available through less expensive, true index funds.

American Funds Fundamental (H) and (L)
American Funds Growth (H) and (L)
American Funds Washington (H) and (L)
Dodge & Cox Stock
MFS Value (H) and (L)
T. Rowe Price Equity Income

(Based on data covering January 1, 2010 to December 31, 2014)

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2014 XYZ 401(k) Plan Mutual Funds Correlation Matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
American Funds Fundamental (1)	1.00	0.98	0.97	0.98	0.95	0.92	0.97	0.98	0.97	0.93
American Funds Growth (2)	0.98	1.00	0.93	0.96	0.97	0.96	0.97	0.98	0.94	0.97
American Funds Washington (3)	0.97	0.93	1.00	0.96	0.91	0.87	0.95	0.95	0.97	0.88
Dodge & Cox Stock (4)	0.98	0.96	0.96	1.00	0.92	0.92	0.97	0.98	0.98	0.90
Fidelity Contrafund (5)	0.95	0.97	0.91	0.92	1.00	0.97	0.94	0.93	0.90	0.98
Fidelity Growth (6)	0.92	0.96	0.87	0.89	0.97	1.00	0.94	0.90	0.88	0.97
Fidelity Low-Priced Stock (7)	0.97	0.97	0.95	0.97	0.94	0.94	1.00	0.97	0.96	0.93
MFS Value (8)	0.97	0.95	0.98	0.98	0.93	0.90	0.97	1.00	0.98	0.91
T. Rowe Price Equity Income (9)	0.96	0.97	0.97	0.98	0.97	0.88	0.96	0.98	1.00	0.88
T. Rowe Price Growth Stock (10)	0.93	0.93	0.88	0.90	0.90	0.97	0.93	0.91	0.88	1.00

(Based on data covering January 1, 2010 to December 31, 2014)

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2014 XYZ 401(k) Plan Mutual Funds InvestSense Stress Test

<u>Fund</u>	<u>Stress Score</u>
Fidelity Growth Company	(2.30)
Fidelity Contrafund	(2.98)
T. Rowe Price Growth Stock	(3.76)

(Based on data covering January 1, 2005 to December 31, 2014)

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2014 XYZ 401(k) Plan Mutual Funds Fiduciary Prudence Rating

<u>Fund</u>	<u>Fiduciary Score</u>
T. Rowe Price Growth Stock	8.01
Fidelity Contrafund	3.50
Fidelity Growth Company	2.15
American Funds Fundamental (L)	NQ
American Funds Fundamental (H)	NQ
American Funds Growth (L)	NQ
American Funds Growth (H)	NQ
American Funds Washington (L)	NQ
American Funds Washington (H)	NQ
Dodge & Cox Stock	NQ
Fidelity Low Price Stock	NQ
T. Rowe Price Equity Income	NQ

(Based on data covering January 1, 2010 to December 31, 2014)

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