



# **Fi360 Fiduciary Score<sup>®</sup> Methodology**



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## What is the Fi360 Fiduciary Score®?

The Fi360 Fiduciary Score® (Score) is an investment rating system born out of Practice 3.3 in the *Prudent Practices for Investment Fiduciaries* handbook series. It helps quickly identify a short list of investments that merit continued research in the selection process. It also facilitates the ongoing monitoring process by highlighting investments that exhibit potential deficiencies.

The Score evaluates investments on nine different criteria across a spectrum of quantitative data points to determine a minimum fiduciary standard of care is being met. The nine criteria include: regulatory oversight, track record, assets in the investment, stability of the organization, composition consistent with asset class, style consistency, expense ratio/fees relative to peers, risk-adjusted performance relative to peers, and performance relative to peers.

The Score is a flash-report on a selected investment. It is a useful tool for investment decision-makers to identify and monitor investments as a part of their due diligence process. The Fi360 Fiduciary Score® represents an objective means of comparing investments according to set criteria and is not intended, nor should it be used as the sole source of information for reaching an investment decision.

## Calculating the Fi360 Fiduciary Score®

The Fi360 Fiduciary Score® is a peer percent ranking of an investment against a set of quantitative due diligence criteria selected to reflect prudent fiduciary management. The Fi360 Fiduciary Score® is calculated on a monthly basis for investments with at least a three-year history. The Score is calculated for open end mutual funds, exchange-traded funds (ETFs), group retirement plan annuities (GRPAs), and collective investment trusts (CITs).

The Mutual Fund and ETF Fi360 Fiduciary Score® is calculated against a combined peer group including both databases. The GRPA Fi360 Fiduciary Score® is calculated against a combined peer group including mutual funds, ETFs and GRPAs. The CIT Fi360 Fiduciary Score® is calculated as an overlay against the Mutual Fund and ETF Fi360 Fiduciary Score®.

Each investment is then evaluated against a set of factors and thresholds and allotted points as described in the Criteria section of this document. The points are totaled and compared to all other investments within the peer group. Investments with 0 points are automatically given an Fi360 Fiduciary Score® of 0. Every other investment is then given a Score of 1-100, representing their percent ranking based on its placement in the distribution of their peer group.

For example, an investment with an Fi360 Fiduciary Score® of 37 means it scores in the 37th percentile of its peers. An Fi360 Fiduciary Score® of 0 is most favorable. It represents that an investment meets or exceeds all of Fi360's recommended due diligence thresholds. A Score of 100 is least favorable.

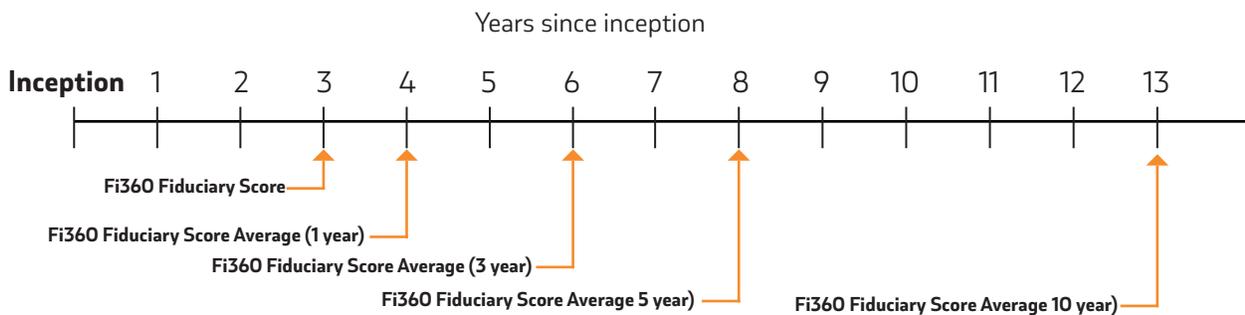
## What is the Fi360 TDF Series Fiduciary Score™

Leveraging our existing Fi360 Fiduciary Score® methodology and data, the Fi360 TDF Series Fiduciary Score™ is an equal-weighted average of each Score for the investments in a target date series linked by strategy, share-class, and underlying vintages (i.e. 2030, 2035, 2040, etc). Because decisions on target date funds in Defined Contribution plans are taken at the series level, Fi360's TD Series Fiduciary Score™ provides advisors, consultants, and plan sponsors a simple means for comparing target date fund series. Unlike the Fi360 Fiduciary Score®, the Fi360 TDF Series Fiduciary Score™ is not a normalized as a percentile ranking; but rather an average of the representative series' collective Fi360 Fiduciary Scores.

# Fi360

## Calculation Timeline

The minimum track record criterion states that an investment must have three years of history before the Fi360 Fiduciary Score<sup>®</sup> can be calculated. Once that threshold has been passed, the Fi360 Fiduciary Score<sup>®</sup> will be available and the history required for the Average Score will also begin to accrue. After an investment accrues one year of Score history, the Fi360 Fiduciary Score<sup>®</sup> Average (1 year) will be available. That pattern extends to the other Average Score calculations, as shown below.



## Calculating the Fi360 Fiduciary Score<sup>®</sup> Average

The Fi360 Fiduciary Score<sup>®</sup> Average (Average Score) is a one-, three-, five- or ten-year rolling average of an investment's Fi360 Fiduciary Score<sup>®</sup>, calculated on a monthly basis.

Because the Average Score is a rolling average of the historical Fi360 Fiduciary Score<sup>®</sup>, an investment must have the requisite amount of history for each Average Score. If an investment does not have the required history, then the investment will not receive an Average Score for a given time period. This is first determined by examining the inception date of the investment's parent share class. If the investment has been in existence for three years PLUS the number of historical years used for the average, then the investment will have an Average Score for that time period. For example if an investment has been in existence for six years, then the investment will have a Fi360 Fiduciary Score<sup>®</sup> Average for the one and three year time periods, but not for the five and ten year time periods.

## Missing Historical Fi360 Fiduciary Score® Data

Because the averaging process utilizes consecutive, monthly data points, a missing period policy has been instituted to ensure that a missed data period will not prevent the calculation of an Average Score for an investment that otherwise has the requisite history.

Fi360 Fiduciary Score® Average	Missing periods allowed
1 year	1
3 year	2
5 year	3
10 year	4

## Calculation Notes

- The Fi360 Fiduciary Score® process relies upon peer group comparison. Determining an investment's appropriate peer group or asset class is subjective. There is no uniform industry standard for determining a money manager's investment style or peer group, which makes it difficult to track some investments across different databases. Fi360 utilizes data from Morningstar, Inc. in the calculation of the Fi360 Fiduciary Score® and therefore uses the Morningstar Category™ as the investment's peer group.
- To make the peer group analysis meaningful, the data set should be substantial enough to draw comparisons. With that in mind, Fi360 requires that a peer group consists of at least five distinct investments, each with a minimum three year history, in order to calculate a Score for the investments in that peer group. Investments within peer groups that do not meet the requirement will not receive a Score.
- Fi360 also utilizes Morningstar Extended Performance data in its calculations. Investment share classes that don't have the history to receive an Fi360 Fiduciary Score® will receive a Score using their parent share class data adjusted for expenses. Regardless of the length of existence, an investment will only receive an Average Score after the appropriate amount of Score calculations have been tracked. Extended performance data will not "back-date" an Average Score for a brand new fund share class.  
*Note: Extended performance data was introduced with the 12.31.2010 calculations.*
- On March 1, 2012, Fi360 switched the calculation frequency of the Fi360 Fiduciary Score® and Fi360 Fiduciary Score® Average from quarterly to monthly. As a part of the transition, the calculation methodology of the Average Score will accommodate both historical quarterly and monthly Score calculations for a period of time. The transition is required so that the Average Score calculation can be continued without interruption. The calculation transition will occur until December 2020.

## Fi360 Fiduciary Score® Criteria

The Fi360 Fiduciary Score® is a peer percent ranking of an investment against a set of quantitative due diligence criteria selected to reflect prudent fiduciary management. The Fi360 Fiduciary Score should not be used as the sole source of information in an investment decision.

### ■ Regulatory Oversight:

The investment should be managed by a bank, trust company, insurance company, registered investment company (mutual fund), or a registered investment adviser.

- *Investments not registered or commingled are excluded from Fi360's calculations*

### ■ Minimum Track Record:

The investment should have at least three-years of history so that performance statistics can be properly calculated

- *Investments without the requisite 3 year history are excluded from Fi360's calculations*

### ■ Stability of the Organization:

The longest reported manager's tenure should be at least two years.

- *5 points are added if the longest tenured manager is at least one but less than two years*
- *10 points added if the longest tenured manager is under one year*

### ■ Assets in the Investment:

The investment should have at least \$75 million under management (across all share classes).

- *5 points if the investment has less than \$75 million in assets*
- *10 points if the investment has less than \$50 million in assets*

### ■ Composition Consistent with Asset Class:

At least 80% of the investment's underlying securities should be consistent with the broad asset class. For example, a Large-Cap Growth investment should not hold more than 20% in cash, fixed income, and/or international securities.

- *10 points if more than 20% of the portfolio is inconsistent with the broad asset class*

*Note: The broad asset classes used in the composition criterion include: U.S. Stocks, U.S. Bonds, and Non-U.S. Stocks. The Long-Short peer group is evaluated on the U.S. Stock and cash composition.*

### ■ Style Consistency:

The investment should be highly correlated to the asset class of the investment option, i.e., the Morningstar Style Box™ for the current period must match the peer group of the investment.

- *10 points if the investment is not correlated to its peer group*

## Fi360 Fiduciary Score<sup>®</sup> Criteria (continued)

### ■ Expense Ratios/Fees Relative to Peers:

The investment's fees should not be in the bottom quartile (most expensive) of their peer group. The Prospectus Net Expense Ratio is used for the evaluation of mutual funds and ETFs. If the investment is purchased within a group annuity product, any recordkeeping fees added to the underlying fund expense ratios by the group annuity provider are not included in the ratio. The management fee is used in the evaluation of GRPAs. It is the maximum percentage deducted from an investment's average net assets to pay an advisor or sub-advisor.

- 10 points if the investment's expense ratio is in the bottom quartile

### ■ Risk-adjusted Performance Relative to Peers:

The investment's risk-adjusted performance (Alpha and Sharpe Ratio) should be above the peer group median manager's risk-adjusted performance. (Alpha is not evaluated for Money Market and Money Market Taxable peer groups.)

- 2.5 points if the risk-adjusted performance is in the third quartile 5.0 points if the risk-adjusted performance is in the fourth quartile
- 7.5 points if the risk-adjusted performance is in the bottom decile
- 7.5 points if not calculated

### ■ Performance Relative to Peers:

The investments performance should be above the peer group's median manager return for 1-, 3-, and 5-year cumulative periods.

#### ■ One-year performance relative to the median value for the peer group:

- 2.5 points if in the third quartile
- 5.0 points if in the fourth quartile
- 7.5 points if in the bottom decile
- 7.5 points if not calculated

#### ■ Three-year performance relative to the median value for the peer group:

- 5.0 points if in the third quartile
- 7.5 points if in the fourth quartile
- 10.0 points if in the bottom decile
- 10.0 points if not calculated

#### ■ Five-year performance relative to the median value for the peer group:

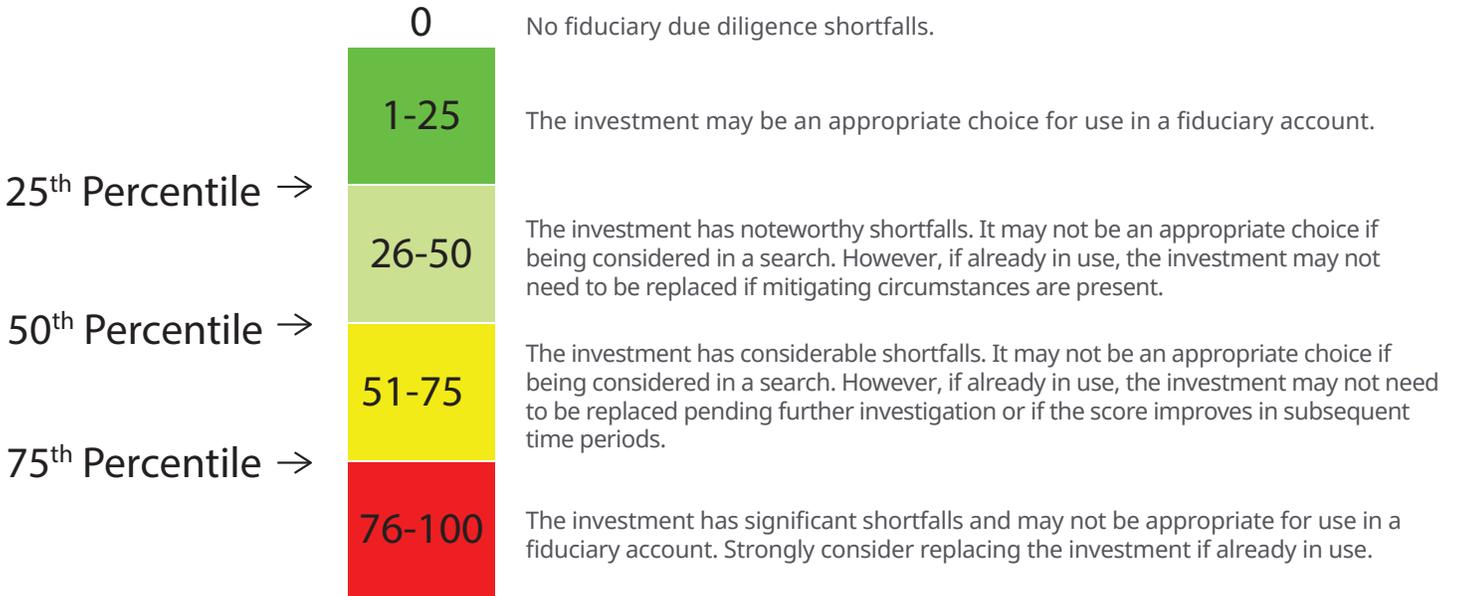
- 7.5 points if in the third quartile
- 10.0 points if in the fourth quartile
- 12.5 points if in the bottom decile

#### ■ If the investment does not have a five-year performance history:

- 7.5 points if the three-year performance is in the third quartile
- 10.0 points if the three-year performance is in the fourth quartile
- 12.5 points if the three-year performance is in the bottom decile
- 12.5 points if the three-year performance not calculated

## Fi360 Fiduciary Score® Range

The Fi360 Fiduciary Score® bar chart provides a visual representation of the investment's Score. The following thresholds provide the user with an easy-to-view assessment of the investment and suggested course of action.



\* The Fi360 Fiduciary Score represents an objective means of comparing investments according to set criteria and is not intended, nor should it be used as the sole source of information for reaching an investment decision.

## Appendix

### Composition consistent with asset class

This criterion is only applied to investments in the following peer groups: Large Value, Large Blend, Large Growth, Mid-Cap Value, Mid-Cap Blend, Mid-Cap Growth, Small Value, Small Blend, Small Growth, Long Government, Long-term Bond, Intermediate Government, Intermediate-term Bond, Muni National Long, Muni Single State Long, Muni National Interim, Diversified Emerging Mkts, Europe Stock, Diversified Pacific/Asia, Pacific/Asia ex-Japan Stk, Japan Stock, Latin America Stock, Foreign Large Value, Foreign Large Blend, Foreign Large Growth, Foreign Small/Mid Value, Foreign Small/Mid Growth, China Region, Muni California Long, Muni California Intermediate, Muni New York Intermediate, Muni New York Long, Muni New York Intermediate, Muni Single State Interim, Inflation-Protected Bond and Long-Short.

### Style consistency

This criterion is only applied to investments in the following peer groups: Large Value, Large Blend, Large Growth, Foreign Large Value, Foreign Large Blend, Foreign Large Growth, Foreign Small/Mid Value, Foreign Small/Mid Growth, Mid-Cap Value, Mid-Cap Blend, Mid-Cap Growth, Small Value, Small Blend, Small Growth, Long Government, Intermediate Government, Short Government, Long-term Bond, Intermediate-term Bond, Short-term Bond, High Yield Bond, Muni California Long, Muni California Intermediate, Muni National Long, Muni National Interim, Muni Short, Muni New York Long, Muni New York Intermediate, Muni Single State Long, Muni Single State Interim, and Inflation-Protected Bond.

### Risk-adjusted performance relative to peers

Morningstar calculates the Alpha and Sharpe Ratios used in the evaluation. Alpha is calculated using one of the nine broad asset class indexes shown below.

Broad Asset Class	Broad Asset Class Index
U.S. Equity	S&P 500 TR USD
International Equity	MSCI EAFE NR USD
Municipal Bond	BarCap Municipal TR USD
Allocation	Morningstar Moderate Target Risk
Taxable Bond	BarCap US Agg Bond TR USD
Commodities	Morningstar Long-Only Commodity TR
Money Market	USTREAS T-Bill Auction Ave 3 Mon
Sector Equity	MSCI World NR USD
Alternative	MSCI ACWI NR USD

**The broad asset classes shown on the previous page correspond to the peer groups in the following manner:**

## ■ Alternative

Bear Market  
 Multicurrency  
 Single Currency  
 Long-Short Credit  
 Long-Short Equity  
 Market Neutral  
 Multialternative  
 Managed Futures  
 Option Writing  
 Volatility  
 Trading--Leveraged Commodities  
 Trading--Inverse Commodities  
 Trading--Leveraged Debt  
 Trading--Inverse Debt  
 Trading--Leveraged Equity  
 Trading--Inverse Equity  
 Trading--Miscellaneous

## ■ Municipal Bond

Muni National Long  
 Muni National Intermediate  
 Muni National Short  
 High-Yield Muni  
 Muni Single State Long  
 Muni Single State Intermediate  
 Muni Single State Short  
 Muni California Long  
 Muni California Intermediate  
 Muni Massachusetts  
 Muni Minnesota  
 Muni New Jersey  
 Muni New York Long  
 Muni New York Intermediate  
 Muni Ohio  
 Muni Pennsylvania

## ■ Sector Equity

Communications  
 Consumer Cyclical  
 Consumer Defensive  
 Energy Limited Partnership  
 Equity Energy  
 Equity Precious Metals  
 Financial  
 Global Real Estate  
 Health  
 Industrials  
 Infrastructure  
 Natural Resources  
 Real Estate  
 Technology  
 Utilities  
 Miscellaneous Sector

## ■ Taxable Bond

Long Government  
 Intermediate Government  
 Short Government  
 Inflation-Protected Bond  
 Long-Term Bond  
 Intermediate Bond  
 Short-Term Bond  
 Ultrashort Bond  
 Bank Loan  
 Stable Value  
 Corporate Bond  
 Preferred Stock  
 High-Yield Bond  
 Multisector Bond  
 World Bond  
 NonTraditional Bond  
 Emerging-Markets Bond  
 Emerging-Markets Local  
 Currency Bond

## ■ International Equity

Foreign Large-Value  
 Foreign Large-Blend  
 Foreign Large Growth  
 Foreign Small/Mid-Value  
 Foreign Small/Mid-Blend  
 Foreign Small/Mid-Growth  
 World Large Stock  
 Diversified Emerging Markets  
 Diversified Pacific/Asia  
 Miscellaneous Region  
 Europe Stock  
 Latin America Stock  
 Pacific/Asia ex-Japan Stock  
 China Region  
 India Equity  
 Japan Stock  
 World Small/Mid Stock

## ■ U.S. Equity

Large Value  
 Large Blend  
 Large Growth  
 Mid-Cap Value  
 Mid-Cap Blend  
 Mid-Cap Growth  
 Small Value  
 Small Blend  
 Small Growth  
 Leveraged Net Long

## ■ Commodities

Commodities Agriculture  
 Commodities Broad Basket  
 Commodities Energy  
 Commodities Industrial Metals  
 Commodities Precious Metals

## ■ Allocation

Allocation -- 15% to 30% Equity  
 Allocation -- 30% to 50% Equity  
 Allocation -- 50% to 70% Equity  
 Allocation -- 70% to 85% Equity  
 Allocation -- 85% + Equity  
 Convertibles  
 World Allocations  
 Tactical Allocations  
 Target-Date 2000-2010  
 Target-Date 2015  
 Target-Date 2020  
 Target-Date 2025  
 Target-Date 2030  
 Target-Date 2035  
 Target-Date 2040  
 Target-Date 2045  
 Target-Date 2050  
 Target-Date 2055  
 Target-Date 2060+  
 Target-Date Retirement

## ■ Money Market

Taxable Money Market  
 Tax-Free Money Market  
 Prime Money Market