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QDIA Validation

Advanced Capital Group **Risk Based** **Model Portfolios**

March 24, 2017

DALBAR, Inc.
Audit & Due Diligence Division



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QDIA Validation - Status as of March 24, 2017

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DALBAR APPROVED

VALIDATED for QDIA

DALBAR has evaluated the **Advanced Capital Group Risk Based Model Portfolios** offered by **Advanced Capital Group (Manager)** to determine if it complies with the requirements to be used as a Qualified Default Investment Alternative (QDIA) as defined by the Employee Retirement Income Security Act of 1974, as amended [ERISA] Section 404(c)(5) and associated regulations.

Advanced Capital Group Risk Based Model Portfolios is referred to as the Investment and are model portfolios that are reported to be in compliance with all applicable regulations.



The Investment

The ***Advanced Capital Group Risk Based Model Portfolios*** (*Investment*), was examined in relation to requirements for a Qualified Default Investment Alternative under ERISA Section 404(c)(5). The *Manager* operates within the meaning of section 3(38) of ERISA acting as a fiduciary. The *Investment* consists of the model portfolios specifically constructed and maintained for each plan according to an Investment Policy Statement for that plan.

→ Evaluation of Prudence

Federal regulations and common sense require that responsible plan fiduciaries make a prudent choice of the investments that are used by participants in ERISA plans. In order to facilitate the prudent choice, DALBAR has examined the *Investment* and rated the prudence of using it. The following table summarizes DALBAR’s findings regarding the prudence of using the *Investment* in an ERISA plan:

Prudence Criteria	DALBAR Prudence Rating	Primary Basis for Prudence Rating
Benefit to Employees	Excellent	The <i>Investment</i> is designed to satisfy the varying needs of participants whose primary objectives may include wealth accumulation, wealth preservation or wealth distribution.
Cost Effectiveness	Good	Selection of the plan’s designated investment alternatives (“DIA”) is in part based on “reasonable investment fee structure” that range from 0.07% to 0.80%. In addition, the <i>Manager</i> charges 0.35% of assets in the portfolio for annual portfolio remodeling. These DIA are exclusively used in the <i>Investment</i> and <i>Manager</i> charges no additional fee for the <i>Investment</i> .
Specific ERISA Requirements	Excellent	The <i>Manager</i> of the <i>Investment</i> has no influence or control over and receives no compensation from the underlying investments. No broker-dealer or other potential conflicts of interest affiliations have been found.
Good Business Practices	Excellent	The Manager employs a comprehensive Investment Policy Statement to select and monitor investments. Investments are customized for each plan.
Avoidance of Litigation	Excellent	The selection and regular monitoring of the plans investments based on the comprehensive investment policy statement that includes assessment of costs provide strong protection from the most likely litigation.

→ Validation Grid

The following table summarizes the ways in which the *Investment* qualifies as a QDIA.

In each case the *Investment* being validated may be applicable as the only one used (stand-alone) or may be used in conjunction with other investments (sleeve) in a model portfolio managed by an investment adviser that qualifies under ERISA section 3(38). The QDIA validation determines which QDIA alternative(s) apply and whether the *Investment* may be used stand-alone and/or as a sleeve in a portfolio.

APPROPRIATE USES OF ADVANCED CAPITAL GROUP RISK BASED MODEL PORTFOLIOS			
QDIA Alternative		Stand Alone	Sleeve of portfolio
1	Age Based	No	Yes
2	Risk Based	Yes	Yes
3	Managed Account	No	Yes
4	Short Term	N/A	N/A
5	Grandfathered	N/A	N/A

→ Noteworthy Observations

The following observations were made during the review and evaluation of *Advanced Capital Group Risk Based Model Portfolios* as a Qualified Default Investment Alternative (QDIA) to provide meaningful investments for participants and limit the exposure of the plan sponsor to the liability of making potentially imprudent decisions.

- The *Advanced Capital Group Risk Based Model Portfolios* are derived from a customized investment lineup. Unlike most QDIAs, the Investment is aligned with the goals of the plan, in areas such as:
 - Risk level that is appropriate for participant segments or for the plan as a whole
 - Guidelines and expectations for the Designated Investment Alternatives offered under the Plan.
 - The asset classes that may be offered
 - Criteria used to monitor and evaluate the performance results of each Designated Investment Alternative

→ Conclusion.

The selection and use of the *Advanced Capital Group Risk Based Model Portfolios* permit fiduciaries to align characteristics of the Investment with participants.

Introduction

This report contains DALBAR's independent analysis of the *Advanced Capital Group Risk Based Model Portfolios* and *Advanced Capital Group* and is intended to supplement the duty of fiduciaries to prudently select investments for use as a Qualified Default Investment Alternative. Since this is a supplement, the content of this report is intended facilitate and not to replace the evaluation required by regulations.

As an independent expert, DALBAR has no affiliation with the *Advanced Capital Group Risk Based Model Portfolios* or the *Advanced Capital Group* and has the training, experience and proficiency to conduct this analysis. DALBAR has a history of over 40 years and is generally recognized by industry and government as an independent third-party expert in the business of providing evaluations, ratings and due diligence. DALBAR certifications are recognized as marks of excellence in adviser services, communications, electronic and telephone services. DALBAR is the only ratings firm with an SEC no-action letter exempting certain of its evaluations from the testimonial rule.

This analysis consists of *four* separate evaluations that are designed to validate if the *Advanced Capital Group Risk Based Model Portfolios* and the *Advanced Capital Group* meet the requirements of ERISA section 404(c)(5) and related regulations. These evaluations are:

- **Capital Preservation/Appreciation Analysis:** Compares ability of the *Investment* to preserve capital in a down market and realize appreciation in an up market.
- **Applicability as QDIA Alternative:** A determination of which class or classes of QDIA are appropriate uses of the *Advanced Capital Group Risk Based Model Portfolios*.
- **Qualification Analysis:** An evaluation of the qualifications of *Advanced Capital Group* to meet the regulatory requirements for a QDIA manager.
- **Reasonableness as an Investment:** An assessment of whether the *Advanced Capital Group Risk Based Model Portfolios* meets the DALBAR standard of reasonableness.

For more information concerning this report, please contact DALBAR at:



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Capital Preservation/Appreciation Analysis

This analysis addresses the fundamental requirement of every asset allocation strategy to preserve capital while realizing appreciation.

The use of customized model portfolios powered by an investment policy statement permits the responsible plan fiduciary to make a prudent decision regarding the extent to which the *Investment* is weighted to capital preservation or appreciation.

A test of the process was conducted with the following findings:

<i>CAPITAL PRESERVATION/APPRECIATION FINDINGS ADVANCED CAPITAL GROUP RISK BASED MODEL PORTFOLIOS</i>		
Employment Stage of Participant	Target Investment Profile	Actual Investment Profile
New to Workforce	Conservative to Moderate	Very Aggressive*
Achieved Minimum Investment Threshold	Moderate to Aggressive	Aggressive
Key Employee	Aggressive to Very Aggressive	Aggressive
Pre-Retiree	Moderate to Aggressive	Conservative**
Retired	Conservative to Aggressive	Conservative

* Participants new to the workforce are best introduced to investing with a less aggressive profile to avoid the possibility of a severe loss that permanently influences investment behavior.

** Pre-retirees are generally expected to have an investment time horizon of 20 to 30 years and are well served by a more aggressive investment profile.

Applicability as QDIA Alternative

There are five types of investments that are named as possible QDIA alternatives. In each case the *Investment* being validated may be applicable as the only one used (stand-alone) or may be used in conjunction with other investments (sleeve). The alternatives are:

1. Age Based
2. Risk Based
3. Managed Account
4. Short Term (Omitted: Not suitable for this *Investment*)
5. Grandfathered (Omitted: Not suitable for this *Investment*)

The Applicability phase of the QDIA validation examines the *Investment* to determine which alternatives apply and whether it may be used stand-alone and/or as a sleeve.

A. APPLICABILITY AS QDIA ALTERNATIVE			
REQUIREMENT FOR QDIA ALTERNATIVE	STAND ALONE	SLEEVE	COMMENTS
1. Age Based - An investment fund product or model portfolio:			
a) ... that applies generally accepted investment theories,	N/A	Yes	<p>Investment Selection Managers are selected based on what is believed to be a repeatable process of generating alpha. Attributes used include: relative category performance, down-side market performance, information ratio, and investment expenses.</p> <p>Asset Allocation The asset allocation is powered by the investment policy statement that is created for each plan.</p> <p>This approach is considered to be a prudent and generally accepted theory.</p>
b) ... that is diversified so as to minimize the risk of large losses,	N/A	Yes	<i>Investment</i> is diversified across multiple asset classes, subject to the plan's investment policy statement.
c) ... that is designed to provide varying degrees of long-term appreciation and capital preservation	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through the appropriate blend of the portfolios of the <i>Investment</i> .
d) ...through a mix of equity and fixed income exposures	N/A	Yes	<i>Investment</i> contains both equities and fixed income securities.

A. APPLICABILITY AS QDIA ALTERNATIVE			
REQUIREMENT FOR QDIA ALTERNATIVE	STAND ALONE	SLEEVE	COMMENTS
e) ...based on the participant's age, target retirement date (such as normal retirement age under the plan) or life expectancy.	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan selects the degree of capital appreciation and capital preservation based on the participants' age but the <i>Investment</i> does not qualify by itself.
f) Such products and portfolios change their asset allocations and associated risk levels over time with the objective of becoming more conservative (i.e., decreasing risk of losses) with increasing age.	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan changes the risk levels over time with the objective of becoming more conservative.
<p>➔ SUMMARY: The <i>Advanced Capital Group Risk Based Model Portfolios</i> qualify to be used as part of a qualified model portfolio in conjunction with other investments but may NOT be used as an AGE-BASED QDIA.</p>			

A. APPLICABILITY AS QDIA ALTERNATIVE			
REQUIREMENT FOR QDIA ALTERNATIVE	STAND ALONE	SLEEVE	COMMENTS
2. Risk Based - An investment fund product or model portfolio:			
a) ... that applies generally accepted investment theories	Yes	Yes	<p>Investment Selection Managers are selected based on what is believed to be a repeatable process of generating alpha. Attributes used include: relative category performance, down-side market performance, information ratio, and investment expenses.</p> <p>Asset Allocation The asset allocation is powered by the investment policy statement that is created for each plan.</p> <p>This approach is considered to be a prudent and generally accepted theory.</p>
b) ... that is diversified so as to minimize the risk of large losses	Yes	Yes	<i>Investment</i> is diversified across multiple asset classes, subject to the plan's investment policy statement.
c) ... that is designed to provide long-term appreciation and capital preservation	Yes	Yes	<i>Investment</i> is designed to manage the risk of capital loss and produce appreciation that is consistent with capital preservation.
d) ...through a mix of equity and fixed income exposures	Yes	Yes	<i>Investment</i> contains both equities and fixed income securities.
e) ...consistent with a target level of risk appropriate for participants of the plan as a whole.	Yes	Yes	The exposure to risk is consistent with the goals of the <i>Investment</i> .
<p>➔ SUMMARY: The <i>Advanced Capital Group Risk Based Model Portfolios</i> qualify as RISK-BASED QDIAs either as a standalone investment or when used as part of a qualified model portfolio in conjunction with other investments.</p>			

A. APPLICABILITY AS QDIA ALTERNATIVE			
REQUIREMENT FOR QDIA ALTERNATIVE	STAND ALONE	SLEEVE	COMMENTS
3. Managed Account - An investment management service:			
a) ... with respect to which a fiduciary that is either, I. an investment manager, within the meaning of section 3(38) of ERISA; II. a trustee of the plan that meets the requirements of section 3(38)(A), (B) and (C) of ERISA; or III. the plan sponsor who is a named fiduciary, within the meaning of section 402(a)(2) of ERISA,	N/A	Yes	The <i>Investment</i> is not appropriate by itself as a managed account but may be included in a managed account by a qualified QDIA manager of the plan.
b) ...applying generally accepted investment theories,	N/A	Yes	See 1a.
c) ...allocates the assets of a participant's individual account	N/A	Yes	The <i>Investment</i> is not appropriate by itself as a managed account but may be included in a managed account by a qualified QDIA manager of the plan.
d) ...to achieve varying degrees of long-term appreciation and capital preservation,	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through a blend of portfolios of the <i>Investment</i> or other investments.
e) ...through a mix of equity and fixed income exposures,	N/A	Yes	<i>Investment</i> contains both equities and fixed income securities.
f) ...offered through investment alternatives available under the plan,	N/A	Yes	The <i>Investment</i> is appropriate for inclusion in the plan and thus be made available to a qualified QDIA manager of the plan.
g) ...based on the participant's age, target retirement date (such as normal retirement age under the plan) or life expectancy.	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation based on the participant's age, target retirement date or life expectancy.
h) Such portfolios are diversified so as to minimize the risk of large losses and	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through the use of other investments.

A. APPLICABILITY AS QDIA ALTERNATIVE			
REQUIREMENT FOR QDIA ALTERNATIVE	STAND ALONE	SLEEVE	COMMENTS
i) ...change their asset allocations and associated risk levels for an individual account over time with the objective of becoming more conservative (i.e., decreasing risk of losses) with increasing age.	N/A	Yes	<i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through the use of other investments for an individual account over time with the objective of becoming more conservative.
<p>➔ SUMMARY: The <i>Advanced Capital Group Risk Based Model Portfolios</i> do NOT qualify to be used as a MANAGED-ACCOUNT QDIA by itself but may be used as part of a qualified model portfolio in conjunction with other investments.</p>			

Qualification Analysis

No violations of self-dealing prohibitions were found and the *Investment* was found to meet the QDIA requirements for the alternatives shown in the Validation Grid section of this report. The analysis included the following findings:

B. QUALIFICATION ANALYSIS			
REGULATORY GUIDELINE	DALBAR EVALUATION	RESULT	COMMENTS
1. Self-dealing Prohibitions - A fiduciary with respect to a plan:			
a) ... shall not deal with the assets of the plan in his own interest or for his own account,	Does <i>Manager</i> have discretion to vary its compensation based on changing holdings within the <i>Investment</i> ?	Pass	<i>Manager's</i> compensation is unaffected by investment decisions made for the <i>Investment</i> .
b) ...in his individual or in any other capacity act in any transaction involving the plan on behalf of a party (or represent a party) whose interests are adverse to the interests of the plan or the interests of its participants or beneficiaries, or	Does <i>Manager</i> have interests that are adverse to those of participants?	Pass	<i>Manager's</i> interests are not adverse to participants' by virtue of the fact that <i>Manager's</i> compensation increases with growth in asset value in participants' accounts and decreases if assets decline.
c) ...receive any consideration for his own personal account from any party dealing with such plan in connection with a transaction involving the assets of the plan.	Does <i>Manager</i> receive compensation from another party for managing the <i>Investment</i> ?	Pass	The <i>Manager</i> has not reported any direct or indirect compensation from any other party that may be dealing with plans that are likely to use the <i>Investment</i> .

B. QUALIFICATION ANALYSIS			
REGULATORY GUIDELINE	DALBAR EVALUATION	RESULT	COMMENTS
2. Conditions for QDIA Fiduciary Relief			
a) Consider investment fees and expenses in choosing a QDIA	Do expenses for this <i>Investment</i> fall within the normal range of other investments of this type?	Pass	<i>Manager</i> charges no additional fee for the QDIA. The compensation is included in a fee of 0.35% that is charged for selection and monitoring of the plan's designated investment alternatives. Underlying investments range from 0.07% to 0.80%.
b) Material is provided to participant relating to his/her QDIA.	Is <i>Investment</i> material appropriate for plan participants?	Pass*	Material submitted does not provide content that is appropriate for participants with only minimal investment knowledge.
c) Notice must be written in a manner calculated to be understood by the average plan participant.	Is the information provided for inclusion in the required notice understandable to an average participant? <u>Note: Plan fiduciary must determine that the entire notice can be understood.</u>	Pass*	Material submitted does not provide content that is appropriate for participants with only minimal investment knowledge.
* While it is not a requirement under ERISA for the QDIA manager to provide materials that are suitable for participants, it is reasonable to do so. Responsible plan fiduciaries who have this responsibility may not have the skill and knowledge necessary to translate the investment discussion into language that is easily understood by the average participant.			
3. QDIA Requirements			
a) QDIA shall not permit employer securities except as investments within regulated investment companies or as employer match.	Does <i>Investment</i> permit use of employer securities outside of the QDIA exceptions?	Pass	Employer securities are excluded by the investment policy statement.

B. QUALIFICATION ANALYSIS			
REGULATORY GUIDELINE	DALBAR EVALUATION	RESULT	COMMENTS
b) QDIA may not impose financial penalties or restrict the ability of a participant to transfer.	Are there restrictions or fees to transfer out of <i>Investment</i> which are prohibited under QDIA regulations?	Pass	Investments with penalties and restrictions are excluded by the investment policy statement.
c) QDIA is either managed by an investment manager, as defined in section 3(38) of ERISA, or plan trustee, or plan sponsor who is a named fiduciary or is a registered investment company or a stable value fund under State or federal regulation.	Does the <i>Manager</i> meet the criteria appropriate for the type of QDIA being validated?	Pass	<i>Manager</i> acts in the capacity of an ERISA 3(38) investment manager. <i>Manager</i> has been vetted by DALBAR and found to meet and exceed the requirements.

Reasonableness as an Investment

QDIA regulations require that investments be reasonable, which DALBAR has further defined as falling within a normal range of comparable investments. The Reasonableness Analysis presented reflects this standard.

Plan fiduciaries are responsible for reviewing current investment information and making the determination that the *Advanced Capital Group Risk Based Model Portfolios* are reasonable investments for the plan. Plan fiduciaries, including plan sponsors, are encouraged to seek independent expert advice in making the selection and monitoring of investments.

In order to assist in the determination DALBAR provides the following observations based on information available at the time of this evaluation.

C. REASONABLENESS INVESTMENT ANALYSIS	
DALBAR INVESTMENT CRITERIA	OBSERVATIONS
1. Minimum track record	
The average history for each underlying asset class investment strategy should be at least three years.	Underlying investments are designated investment alternatives of the plan and are selected by the <i>Manager</i> prior to use in the QDIA.
2. Stability of the organization	
The average tenure of the portfolio management team for each underlying asset class investment strategy should be at least two years.	See C1.
3. Assets in the product	
The average underlying asset class investment strategy should have at least \$75 million under management (can include assets in other funds with the same strategy).	See C1.
4. Holdings consistent with style	
a) The allocation to equities is evaluated against the peer group – highest allocation to least - the screening threshold being set at the bottom quartile;	Defined by the investment policy statement.
b) The allocation to fixed income is evaluated against the peer group – highest allocation to least - the screening threshold being set at the bottom quartile.	Defined by the investment policy statement.

C. REASONABLENESS INVESTMENT ANALYSIS	
DALBAR INVESTMENT CRITERIA	OBSERVATIONS
5. Correlation to style or peer group	
The number of asset classes that make up the QDIA are evaluated against the peer group - most asset classes to least - the screening threshold being set at the peer group median.	Defined by the investment policy statement.
6. Expense ratios/fees	
a) The wrapper expense is evaluated against the peer group – cheapest to most expensive - the screening threshold being set at the bottom quartile.	The wrapper expense is expected to be 0.25% to 0.35%, reflecting the cost of screening and asset allocation.
b) The average expense ratio of each underlying asset class investment strategy is evaluated against the peer group - cheapest to most expensive - the screening threshold being set at the bottom quartile.	See C1.
7. Performance relative to assumed risk	
This analysis evaluates historical performance within the context of overall risk. It examines the number of positive and negative annual returns, the average of the positive and negative annual returns, and the best and worst annual returns, for a minimum of three years (max: 10 years).	Investment performance of the <i>Investment</i> varies from one plan to another. Historical performance is based on the investment selections and monitoring of the designated investment options and asset allocations derived from the plan’s investment policy statement.
8. Performance relative to a peer group	
The average 1-, 3-, and 5-year performance of each asset class investment strategy is evaluated against the peer group’s median.	See C7.

Appendices

A. Asset Allocators

INVESTMENT	ALLOCATOR	TOTAL YEARS EXPERIENCE	YEARS WITH FIRM
<i>Advanced Capital Group Risk Based Model Portfolios</i>	Charles Langowski	29	18
	Teri Richardson	13	2



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