

Mesirow Financial

Fiduciary Partnership FAQ for Advisors

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Firm Overview

1. Who is Mesirow Financial?

Mesirow Financial is a diversified financial services firm headquartered in Chicago. Founded in 1937, it is an independent, employee-owned firm with approximately 1,200 employees globally. With expertise in Investment Management, Global Markets, Insurance Services and Consulting, Mesirow Financial strives to meet the financial needs of institutions, public sector entities, corporations and individuals. As of fiscal year 2011, the firm had \$510 million in revenues, \$302 million in capital and \$59.0 billion in assets under management. For more information about Mesirow Financial, visit its website at mesirowfinancial.com.

2. Who is the Investment Strategies Group?

The Mesirow Financial Investment Strategies group is the industry leader in providing plan level fiduciary services through retirement plan providers. The Investment Strategies group was founded in 2006 as an independent investment consultant team specializing in fiduciary partnership services, manager due diligence, retirement income product allocation guidance and risk-based and target-maturity asset allocation models.

* The specific instances in which a party may be entitled to indemnity are set forth in detail in the agreement between the plan sponsor and Mesirow Financial, and nothing herein is intended to modify that agreement

Fiduciary Partnership Service Overview

3. How does Mesirow Financial's role as a fiduciary fit with an advisor?

Mesirow Financial's Fiduciary Partnership service can help mitigate your fiduciary risk, while still embracing and empowering your role with plan sponsors. The advisor continues to own the relationship with the plan sponsor, where the advisor is the key point of contact for the service. As an agent to the plan sponsor, Mesirow Financial's sponsor agreement also protects advisors from certain third party lawsuits regarding investment option selection and monitoring.*

4. What do full scope 3(21) and limited scope 3(21) fiduciary mean?

"Full Scope 3(21)" and "Limited Scope 3(21)" are not ERISA definitions for fiduciaries. Under ERISA, there are several types of fiduciaries such as named fiduciary, 3(21) fiduciary, and 3(38) fiduciary.

A named fiduciary, identified by name in the plan documents, can (i) have responsibility or liability for investing plan assets; (ii) appoint a third-party as an ERISA 3(21) fiduciary to provide investment advice, but retain responsibility for investing plan assets or (iii) appoint a third-party ERISA 3(38) fiduciary with responsibility for investing plan assets. The named fiduciary has the final responsibility and liability for investing the plan assets whether they do so by appointing a 3(21) fiduciary for investment advice or outsourcing it to a 3(38) fiduciary with discretion.

The advisor community and the industry in general loosely interpret the role of a named fiduciary as "Full Scope 3(21)" and the role of a 3(21) fiduciary appointed by the named fiduciary as "Limited Scope 3(21)."

The Mesirow Financial Investment Strategies group is the industry leader in providing plan level fiduciary services and offers both 3(21) and 3(38) fiduciary solutions which can help mitigate fiduciary risk, while still embracing and empowering an advisor's role.

5. Is Mesirow Financial a named fiduciary to the plan?

A named fiduciary, identified by name in the plan documents, can (i) have responsibility or liability for investing plan assets; (ii) appoint a third-party as an ERISA 3(21) fiduciary to provide investment advice, but retain responsibility for investing plan assets or (iii) appoint a third-party ERISA 3(38) fiduciary with responsibility for investing plan assets. The named fiduciary has the final responsibility and liability for investing the plan assets whether they do so by appointing a 3(21) fiduciary for investment advice or outsourcing it to a 3(38) fiduciary with discretion.

Under our agreement with the plan sponsor, a named fiduciary to the plan appoints Mesirow Financial as an ERISA 3(21) fiduciary providing investment advice regarding investment option selection and monitoring or as an ERISA 3(38) fiduciary and investment manager with discretion for investment option selection and monitoring.

6. Why would you, as an advisor, choose to utilize our services?

Using our service can be a big differentiator in both plan retention and new sales. An advisor can feel comfortable relying upon our independent, thorough quantitative and qualitative due diligence process. Our team's extensive research capabilities can save you a large amount of time and effort, allowing the advisor time for other plan-related duties including education and guidance or participant-level advice. Our reporting is set up so that the advisor can quickly find important talking points on investment options under consideration for utilization in a plan lineup.

7. How can Mesirow Financial mitigate your fiduciary risk?

The majority of the advisor community may not be able to act in a fiduciary capacity, and the Investment Strategies Group can step in and assist with the significant responsibility of ongoing fund selection and monitoring. This will allow you more time to focus on other areas of your expertise in assisting plan sponsors. You will remain the key point of contact with the sponsor. As detailed in the agreement between Mesirow Financial and the plan sponsor, Mesirow Financial will perform and defend its duties and obligations with respect to investment option monitoring and selection in compliance with ERISA. This agreement protects both the sponsor and the advisor, who is acting as an agent to the plan, from certain third-party lawsuits arising from certain issues regarding investment option selection and monitoring.

8. What exactly is the legal coverage provided by the Fiduciary Partnership service?

The service is designed to protect the plan sponsor from third-party (i.e., plan participant) claims pertaining to investment selection and monitoring. Under our agreement with the plan sponsor, if a third-party claim is made that Mesirow Financial breached its ERISA fiduciary duty with regards to investment selection and monitoring, Mesirow Financial will step in to protect the plan sponsor and its agents (i.e., you, the advisor, in case you are listed in the suit), defending these third-party claims on behalf of the plan sponsor and its agents.

9. What is the limitation on liability for this service?

The limitation on liability does not apply to the third-party claim protection that Mesirow Financial provides to the plan sponsor and the advisor. The limitation of liability applies to contractual disputes between Mesirow Financial and the plan sponsor only. The limitation of liability is two times the annual fee paid to Mesirow Financial by the Plan Sponsor. On the other hand, if the plan sponsor and the advisor are sued by a third party claiming that Mesirow Financial breached its ERISA fiduciary duty with regards to investment selection and monitoring, the liability is uncapped and Mesirow Financial will step in and defend the claim.

10. Does Mesirow Financial have the financial strength to back up its Fiduciary Partnership service?

Utilizing our in-house insurance and risk management expertise, Mesirow Financial has secured appropriate levels of Professional Liability insurance in place for such lawsuits. In the unlikely event that this insurance does not sufficiently cover such a claim, Mesirow Financial is positioned well for such a defense. Mesirow Financial relies upon both internal general counsel and external ERISA lawyers to ensure we are abiding by the always-evolving regulatory landscape.

11. Has Mesirow Financial or any plan sponsor been sued related to the Fiduciary Partnership service?

No, since the service initially launched in 2007, there have been no related lawsuits. By providing a thorough and well-documented service, Mesirow Financial hopes to minimize the likelihood that such a claim will be filed, but there is no guarantee that there will be no future lawsuits filed.

12. What is the difference between the 3(21) and 3(38) fiduciary services and how does your role change with each?

Both 3(21) and 3(38) fiduciary services offer the same legal protection with respect to certain third-party claims regarding approved investment options. The key differences in the services lie in the flexibility of implementation and in who ultimately has discretion over decision making.

The Mesirow Financial 3(21) Fiduciary Partnership service offers a "help me do it," flexible approach to providing fiduciary coverage with respect to investment option selection and monitoring, and offers:

- The Mesirow Financial Elite List, a broad menu of approved investment options from which to select
- The ability for a plan sponsor, broker or advisor to customize their plan lineup, where the plan sponsor maintains discretion
- Suggested Lineups for those plan sponsors, brokers or advisors that do not want to, or cannot, participate in the selection of investment options for their plan lineup
- The flexibility of including investment options not covered on the Elite List (e.g., company stock, brokerage windows, certain sector funds), where these options are excluded from fiduciary coverage but may be included in the plan lineup

The Mesirow Financial 3(38) Fiduciary Partnership service offers a “do it for me,” approach to providing fiduciary coverage with respect to investment option selection and monitoring, and provides:

- The Mesirow Financial Discretionary Investment Option Lineups where Mesirow Financial assumes full discretion for selecting, monitoring and (if necessary) replacing the investment options
- The ability for a plan sponsor, broker or advisor to select from the available lineups based on the particular demographics of the plan participants
- The exclusion of any investment option not included in the Discretionary Investment Option Lineups including company stock, brokerage windows and certain sector funds

13. What are the main deliverables that are sent to the plan sponsor from Mesirow Financial?

MESIROW FINANCIAL DELIVERABLES	3(21)	3(38)
Plan Sponsor Agreement with Indemnity	X	X
Elite List and Suggested Investment Option Lineups	X	
Discretionary Investment Option Lineups		X
Mesirow Financial POLICE Report®	X	X
Quarterly Market Commentary	X	X
Investment Policy Statement Sample	X	X
Removal Memorandums	X	X

Mesirow Financial 3(21) Fiduciary Partnership Service

The Mesirow Financial Elite List

14. What is the Mesirow Financial Elite List?

The Elite List offers a broad menu of investment options from which a broker, advisor, plan sponsor or other party may choose. Inclusion on the Elite List offers the assurance that Mesirow Financial stands behind the selection and monitoring of the investment options and offers fiduciary protection to the plan sponsor and its agents provided all contractual obligations are met. The Elite List is a subset of investment options available through a plan provider platform and consists of investment options that pass Mesirow Financial's quantitative and qualitative screens.

By including an investment option on the Elite List, Mesirow Financial has determined that the asset class represented by the investment option is appropriate for inclusion in a retirement plan. In addition, Mesirow Financial has determined that the investment option is appropriate within its asset class. Certain specialized strategies, sector and region specific investment options, company stock and brokerage windows are excluded from coverage. Any platform investment option that does not qualify for the Elite List will not appear on the list, but is reevaluated annually for inclusion.

15. How do I use the Elite List?

The Elite List identifies investment options that fall within one of the five Core Asset Classes and those that fall into various Supplemental Asset Classes. To qualify for the service, the plan sponsor must select at least one investment option from five (5) Core Asset Classes; Large-Cap Domestic Equity, Small-Cap Domestic Equity, Large-Cap Foreign Equity, Intermediate-Term Domestic Bonds, and a Cash Equivalent. Once this requirement is fulfilled, the plan sponsor may include any other investment options from the Elite List and receive the fiduciary protection outlined in the investment advisory agreement. The Elite List also includes the Morningstar Category for reference in the selection process. View a sample [Elite List](#).

16. Can you include an investment option not on the Elite List for the plan's lineup?

Yes, many of Mesirow Financial's plan provider clients allow you to use an investment option that is on their platform but not on the Elite List. If any non-Elite investment option is added to a plan's platform, Mesirow Financial will not act as a fiduciary for that particular investment. As long as the plan has Elite List investment options available in all five of our Core Asset Classes, it will still qualify for the fiduciary coverage.

17. Can you include company stock or a brokerage window that is not on the Elite List?

Yes, many of Mesirow Financial's plan provider clients allow you to use these investment options. However, Mesirow Financial will not act as a fiduciary for these particular investments.

18. Can you include a managed account solution that is not on the Elite List?

Yes, many of Mesirow Financial's plan provider clients allow you to use managed account solutions. However, Mesirow Financial will not act as a fiduciary for these particular investments. If however, the managed account provider utilizes investment options from the Elite List, these Elite List investment options will retain fiduciary coverage by Mesirow Financial.

19. How will I know if an investment option is removed from the Elite List?

The Elite List is updated quarterly. When an investment option is removed from the Elite List, it will be identified in the Mesirow Financial POLICE Report® under the Investment Options Removed from Mesirow Financial Elite List This Quarter section. In addition, a memorandum pertaining to the removed investment option is delivered indicating why the investment option is being removed and what actions, if any, are required by the plan sponsor. Most investment options that are removed from the Elite List will have been monitored for at least three quarters on the Mesirow Financial POLICE Report®.

20. What do I do when an investment option in a Core Asset Class is removed from the Elite List?

If the removed investment option falls into one of the five Core Asset Classes, action may be required as detailed in the memorandum to maintain fiduciary coverage. If the removed investment option is the only option offered by the plan within one of the five Core Asset

Classes, an additional investment option must be added to fulfill the Core Asset Class requirement. It is up to the plan sponsor whether they want to replace the option or simply add an additional option, but Mesirow Financial will typically recommend the removal of the non-qualifying option. There is a 90 day grace period for the plan sponsor to make any such changes and maintain fiduciary coverage. View a sample [Removal Notification for a Core Asset Class](#) investment option.

21. What do I do when an investment option in a Supplemental Asset Class is removed from the Elite List?

For investment options in the Supplemental Asset Classes, Mesirow Financial will recommend the removal of the non-qualifying option, but no action is required to maintain fiduciary coverage for the plan. However, after the 90 day grace period, the investment option being removed from the Elite List will no longer receive fiduciary coverage, and the plan sponsor will be solely responsible for the investment option. Details regarding the removal and Mesirow Financial's recommendation are provided for in the detailed memorandum. View a sample [Removal Notification for a Supplemental Asset Class](#) investment option.

22. Where can I go to find a replacement investment option?

When an investment option is removed from fiduciary coverage, the Elite List can be used as a guide to select a replacement within the same Morningstar Category. If a recommended replacement is desired, referencing the Suggested Fund lineup provides the Mesirow Financial recommendation(s) within the same Morningstar Category.

The Mesirow Financial Suggested Lineup

23. What is the Mesirow Financial Suggested Lineup?

Mesirow Financial offers one or more Suggested Lineups through its plan provider clients. These Suggested Lineups are typically designed to offer an appropriate lineup based primarily on the demographics of the plan participant pool. If more than one Suggested Lineup is available, a description based on the target plan demographic is provided to aid in the selection of the appropriate lineup.

24. Do I need to use an entire Suggested Lineup to qualify for the fiduciary service?

No. The lineups are designed to be implemented as a whole or can be mixed with other funds from the Elite List. Investment options that are not on the Elite List or Suggested Lineup may also be included within a plan, but are the sole responsibility of the plan sponsor and do not receive Mesirow Financial's fiduciary coverage.

25. Is the fiduciary coverage different for investment options on the Suggested Lineup versus the Elite List?

No, the legal protection provided to the plan sponsor and their agents is the same for both.

26. How often is the Suggested Lineup changed?

On an annual basis the Suggested Lineup is re-evaluated to determine if any investment options warrant replacement. This annual review typically takes place after the second quarter of the year. Other changes may be warranted throughout the year, typically resulting from investment option closures, mergers or other corporate actions.

27. What happens when Mesirow Financial makes a change to the Suggested Lineup?

From time to time Mesirow Financial may determine that a change to the Suggested Lineup(s) is necessary. The plan sponsor may elect to make the change to reflect that in the Suggested Lineup, or may elect to keep the original investment option. View a sample [Change Notification](#).

28. Is a plan sponsor required to make a change to their investment lineup if there is a change to their Suggested Lineup?

No, with the 3(21) fiduciary service, the plan sponsor maintains discretion over any changes to their investment lineup, even if they elected to use a Suggested Lineup. If, however, the investment option is also being removed from the Elite List, a notification will be provided with instructions on what actions are required for the plan to retain fiduciary coverage.

29. How else can the Suggested Lineup be used?

If a plan sponsor or an advisor is interested in Mesirow Financial's recommendation from the available investment options on a platform, the Suggested Lineup can be used to identify the recommendations within each investment option's Morningstar Category.

The Mesirow Financial POLICE Report®

30. What is the Mesirow Financial POLICE Report®?

The Mesirow Financial POLICE Report® is a quarterly watch list of investment options that identifies current and potential issues that arise with investment managers. The Mesirow Financial POLICE Report® should be viewed as a communication tool to plan sponsors and other interested parties to ensure that they are aware of important issues related to the investment options that they have selected. It is also an important tool to document that appropriate monitoring of the investment options is fulfilled. View a sample [Mesirow Financial POLICE Report®](#).

Mesirow Financial's manager research team uses quantitative and qualitative analysis to develop the Mesirow Financial POLICE Report®. Each calendar quarter, we evaluate and monitor investment options with respect to the following measures:

P ERFORMANCE	Evaluate performance versus their appropriate peers using PrecisionAlpha® and Morningstar category rankings
O RGANIZATION	Track personnel, ownership, manager, and sub-advisor changes
L EGAL ISSUES	Monitor litigation, settlements, and regulatory or disciplinary actions
I NVESTMENT POLICY	Identify changes to the investment strategy as well as changes in general operations
C ONSISTENT STYLE	Monitor for style inconsistencies and drift
E XPENSE	Compare fees with peer group average to assess competitiveness when Performance issues occur

31. How do I identify if a plan sponsor has an investment option that is on the Mesirow Financial POLICE Report®?

The Mesirow Financial POLICE Report® is separated into several sections to make it easy to locate information. The Summary section includes a list of every investment option that currently has an item that is being monitored. A quick scan of the Summary section will identify if any investment options are present from a particular plan lineup.

The different sections of the Mesirow Financial POLICE Report® are designed to help you identify the information that is most important to you:

Summary Lists investment options on the Mesirow Financial Elite List that are being monitored for issues in one or more of the six categories described above.

Investment Options Removed from Mesirow Financial POLICE Report this Quarter Identifies investment options that have experienced consistent improvements over three consecutive quarters and no longer need to be monitored on the Mesirow Financial POLICE Report.

Investment Options Added to Mesirow Financial POLICE Report this Quarter Identifies investment options with current or potential issues that were added to the Mesirow Financial POLICE Report in the current quarter.

Complete Mesirow Financial POLICE Report Includes investment options on the Mesirow Financial Elite List that are being monitored—both newly added investment options and carry-overs from previous quarters.

Investment Options Removed from Mesirow Financial Elite List This Quarter Identifies investment options that have been removed from the Mesirow Financial Elite List and no longer qualify for Mesirow Financial's fiduciary coverage due to prolonged issues in one or more of the six categories. In addition, a memorandum pertaining to the removed investment option is provided indicating why the investment option is being removed and what actions, if any, are required by the plan sponsor.

32. Is it “bad” for an investment option to appear on the Mesirow Financial POLICE Report®?

Many of the items reported on the Mesirow Financial POLICE Report® will not result in the investment option's removal from the Elite List. These are items that should be monitored as a fiduciary to a retirement plan, but may not result in adverse effects to the investment option or its performance. For example, an investment option may have added additional resources to their management team or changed their investment policy slightly to better reflect common practices of the management team. A plan fiduciary is required to monitor and document these changes. The Mesirow Financial POLICE Report® serves as the documentation of this monitoring process.

33. How long does an investment option remain on the Mesirow Financial POLICE Report®?

Typically items reported on the Mesirow Financial POLICE Report® remain on the report for a minimum of three quarters after the investment option initially appears on the report. However, this timing does vary depending on the type of item being monitored and specifics regarding a particular investment options. As a general guideline, the following timelines apply:

- **Performance, Consistency of Style and Expense** Monitored for three consecutive quarters of improvement for removal from the Mesirow Financial POLICE Report® or three consecutive quarters of continued failure for removal from fiduciary coverage. The maximum period of monitoring is six quarters, in those cases where performance fluctuates. If after six quarters, the investment option has not demonstrated three quarters of consecutive improvement, the investment option is removed from fiduciary coverage.
- **Organization and Investment Policy** Monitored for three quarters from the date for which the change became effective.
- **Legal** Monitored until the litigation or regulatory issue has been resolved.

34. How else might the Mesirow Financial POLICE Report® be used?

For investment options in consideration for addition to a plan lineup, the Mesirow Financial POLICE Report® may help identify items of concern in the selection process. For example, a plan sponsor may be deciding between two large-cap managers, but one of the options appears on the Mesirow Financial POLICE Report® because the lead manager just retired.

For investment options already on a plan lineup, the Mesirow Financial POLICE Report® can help identify items that may impact a plan sponsor's decision to maintain an investment option's availability on their platform. For example, suppose a foreign investment manager was originally selected because they did not allow any emerging market investments. A year later, the Mesirow Financial POLICE Report® indicates that the investment policy has changed, allowing up to 20% investment in emerging market equities. Similarly, departure of a star investment manager does not automatically cause an investment option to be removed from the Elite List, but it may be critical for a particular plan sponsor in deciding that another investment option is preferred.

The Mesirow Financial Sample Investment Policy Statement

35. What is the Sample Investment Policy Statement?

The Sample Investment Policy Statement provided by Mesirow Financial clearly defines its role as a fiduciary to the plan with respect to security selection and monitoring. An investment policy statement is an important tool in documenting a plan sponsor's role and the role of any other fiduciary with respect to the plan.

36. Is it required to complete and maintain an Investment Policy Statement to qualify for the fiduciary service?

No, the Sample Investment Policy Statement is not required to qualify for the service. It is provided as an additional benefit to the plan sponsor.

37. How do I complete the Sample Investment Policy Statement?

The Sample Investment Policy Statement document is designed as a template to be completed by the plan sponsor and/or their agent. Text that appears in blue contains instructions on how a plan sponsor can complete those sections resulting in a custom investment policy statement for their plan.

The Mesirow Financial Quarterly Market Commentary

38. What is the Mesirow Financial Quarterly Market Commentary?

The Mesirow Financial Quarterly Market Commentary provides a summary of how the various investment markets performed over the prior quarter. In addition, commentary is provided to help a plan sponsor and/or their agents place the quarter's results into context. View a sample [Quarterly Market Commentary](#).