

**Special Research Paper**  
**May 2005**

**SEC Staff Issues Report on  
Review of Investment Consultants' Possible Conflicts of Interest**

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**What You Should Know and  
How Does FiduciaryVest, LLC Stack Up?**

On May 16, 2005, the Securities and Exchange Commission's Office of Compliance and Examinations issued a staff report on its recent, extensive examination of 24 selected consulting firms that are registered with the SEC under the Investment Advisers Act of 1940 (as is FiduciaryVest). In particular, the firms were selected because of their size and the fact that they have registered with the SEC as "pension consultants" (as FiduciaryVest has).

Though FiduciaryVest was not among the firms that was reviewed, we think you should know what the SEC found and we are proud to disclose what they would have found, had they examined FiduciaryVest.

The SEC undertook the review in order to ascertain what potential conflicts of interest exist in the investment consulting community, how those potential conflicts are managed or mitigated and, most particularly, what disclosures are made to clients and others about conflict situations.

The primary factor that was used by the SEC to determine whether a potential conflict existed was whether a consulting firm's revenues included direct and/or indirect compensation paid by sources other than its clients and, if so, the nature and extent of those revenues and the specific conflicts involved. On the next page is a summary of the findings and a comparison to FiduciaryVest's policies and practices.

**FiduciaryVest, LLC**  
*Investment Strategies for Fiduciaries*

<b>Principle</b>	<b>SEC's Findings</b>	<b>FiduciaryVest</b>
<p>"Advisers must give disinterested advice. An adviser who has a pecuniary interest in a client's transaction, other than the agreed fee, cannot give disinterested advice. The adviser must disclose that interest to clients or be liable under the antifraud provisions of the Advisers Act". (<i>Feeley v. Wilcox Asset Mgmt. Corp.</i> . 7-10-2003)</p>	<p>More than half of the 24 consulting firms studied (or their affiliates) sell products and services to money managers and mutual funds on an ongoing basis. For some firms, these sales comprise a significant portion of their total revenues.</p> <ul style="list-style-type: none"> <li>• 13 of the consulting firms host conferences for clients at no charge. 8 of these allow money managers to attend for a (significant) fee.</li> <li>• 10 firms sell software to money managers to analyze performance and charge them subscription fees ranging up to \$70,000 per year.</li> </ul> <p>A majority of the consultants examined own, or have a revenue relationship with a broker-dealer. The consultant, or its broker-dealer relationship generally receives "recaptured commissions" from trades in client accounts.</p> <p>Money managers may direct trades to the consultant's brokerage arrangement, as a means to curry favor with the consultant.</p> <p>Some consultants had a pattern of recommending money managers to clients more often, when the manager provided revenue to the consultant, compared to managers who did not do so.</p> <p>19 (of the 24 examined) consultants provide products and services to money managers. 100% of them provided either NO disclosure of those facts, or limited disclosure which the SEC found to be generally inadequate.</p>	<p><i>FiduciaryVest DOES NOT:</i></p> <ul style="list-style-type: none"> <li>• <i>Have ANY relationship of any kind with a broker.</i></li> <li>• <i>Accept money managers or mutual funds as clients.</i></li> <li>• <i>Generate ANY revenues from any source other than direct billings to its clients.</i></li> </ul> <p><i>FiduciaryVest DOES:</i></p> <ul style="list-style-type: none"> <li>• <i>Have an extensive set of formal policies and procedures, among which are strict guidelines about dealings with investment managers.</i></li> <li>• <i>Offer comprehensive vendor cost reduction/cost containment services to clients, particularly those with large benefit plans that use mutual funds.</i></li> <li>• <i>Include policy, procedure and other compliance issues as a standing agenda item for its weekly staff meetings.</i></li> </ul>
	<p>Many consultants did not maintain policies and procedures that addressed how they prevent, or manage conflicts of interest.</p>	