



Selection Process for Nonqualified Plan Investment

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About This Report



Investment Selection is one of the most important aspects of a nonqualified deferred compensation plan as it not only impacts the participants returns, but also the company's cost.

This report will discuss the aspects of Investment Selection and a process to use.

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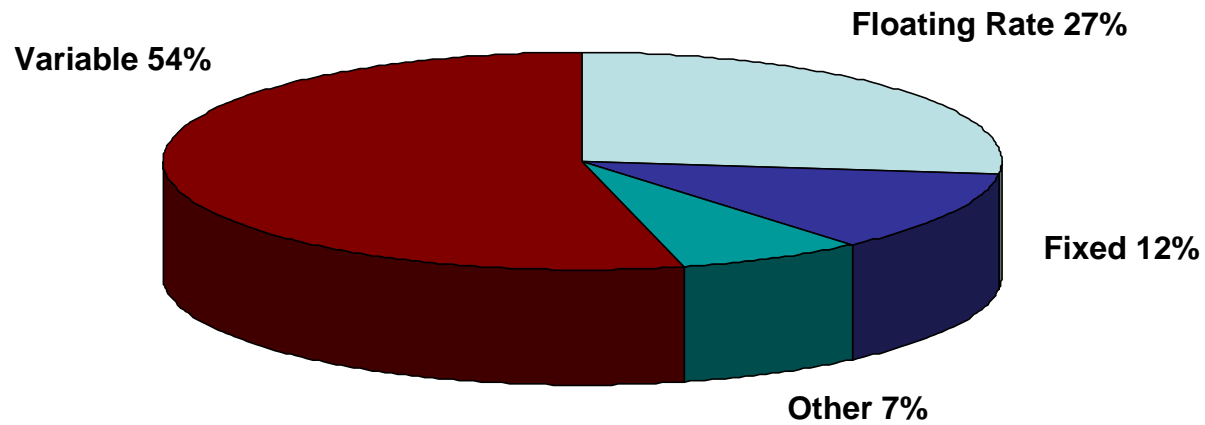


Deferred Compensation Plan Investment Selection

Deferred Compensation Plan Investment Selection



- With 54% of nonqualified plan investment selection being variable, the selection process becomes an important aspect in the design of a plan.



Deferred Compensation Plan Investment Selection



Selection Process

- ❑ **Many plans use a bias process for selecting the investments for their nonqualified plan:**
 - ◆ Mirror 401(k) Funds;
 - ◆ Insurance Product Investment Managers.

Deferred Compensation Plan Investment Selection



Selection Process (continued)

- Both processes have their bias and additional costs.
- Senior Executives desire best managers.
- Cost of funds is an important aspect of total return.

Deferred Compensation Plan Investment Selection



Selection Process (continued)

- Ideal solution is to have a blank “piece of paper” to selecting the managers.

- Select asset classes and managers before selecting funding vehicle, (i.e. Mutual Funds or COLI*).

* Corporate Owned Life Insurance.



Section II.



The ScorecardSM System

The ScorecardSM System



The ScorecardSM System was created by Deferred Compensation Investment Advisors (DCIA) as a way to score/rate funds utilizing multiple criteria commonly applied in today's institutional* marketplace. The result is a straightforward and understandable numerical scoring system.

What we are trying to determine:

Was past performance attributable to skill, or was it luck?

~~**Who had the best return?**~~

* Institution investors (i.e. pension, public funds, endowments, insurance companies and commercial banks) manage large pools of money for beneficiaries, stockholders, policyholders, and/or members of an institution. The investment policies of an institution are reviewed by experienced investment professionals.

The ScorecardSM System



Large Cap Growth – Executive Summary

Asset Class Review

U.S. large cap growth was the worst performing U.S. equity asset class. Depending on the index, it was either positive, or even negative. Large cap growth equities did not outperform large cap blend and large cap value counterparts over the latest one, three, and five year periods.

Two of the four funds were top-ranked in the asset class. The American Funds Growth Fund of America displayed the highest performance and the lowest risk level of the two. The fund has also displayed a tilt towards the small-mid capitalization companies.

Investment Rank

- American Funds Growth Fund of America A
- Fidelity Large Cap Stock Index Fund (If available)

Ranked Fund Watch List:
(If a fund is on our watch list)

Fund footnotes are listed here.

Investment Analysis Scorecard

Large Growth	Style 1 Page [4]	Style 2 [4]	Risk/ Return [3]	R ² > 80% [5]	Up > Down [6]	IR: Positive [7]	Returns: > 50th % [8]	IR Rank: > 50th % [9]	Qual. /2	SCORE
American Funds Amcap	0	0	1	0	1	1	1	1	1	6
American Funds Gr Fd of Am	1	1	1	1	1	1	1	1	2	10
Fidelity Focused Stock	1	0	1	1	0	1	0	0	0	4
Fidelity Large Cap Stock	1	1	1	1	1	1	1	1	2	10

This hypothetical illustration portrays the potential performance of an unspecified mutual fund. It may not be used to predict or project investment results. Fees and charges vary between mutual funds; must refer to the prospectus for complete information on fees, charges or expenses. Mutual funds are available by prospectus only.

Sample illustration from the ScorecardSM System.

The ScorecardSM System



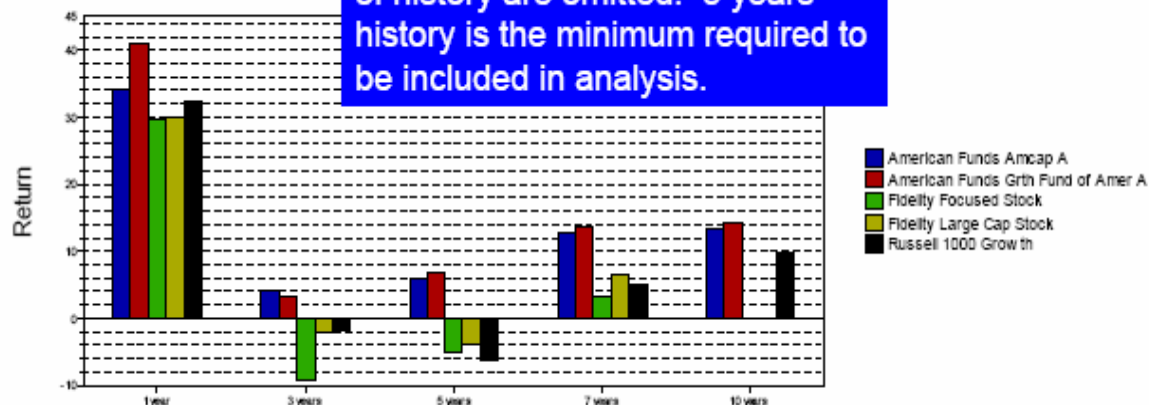
Large Cap Growth – Annualized Performance

Manager vs Benchmark: Return through March 2004
(not annualized if less than 1 year)

	1 year	3 years	5 years	7 years	10 years
American Funds Amcap A	34.17%	3.91%	5.91%	12.75%	13.19%
American Funds Grth Fund of Amer A	41.01%	2.07%	6.80%	12.65%	14.18%
Fidelity Focused Stock	29.50%	-2.21%	-3.00%	6.42%	N/A
Fidelity Large Cap Stock	29.50%	-2.21%	-3.00%	6.42%	N/A
Russell 1000 Growth	32.18%	-1.74%	-6.13%	4.88%	9.79%

This page is for informational purposes only (funds are not scored on absolute performance).

Generally, funds with < 5 years of history are omitted. 3 years history is the minimum required to be included in analysis.



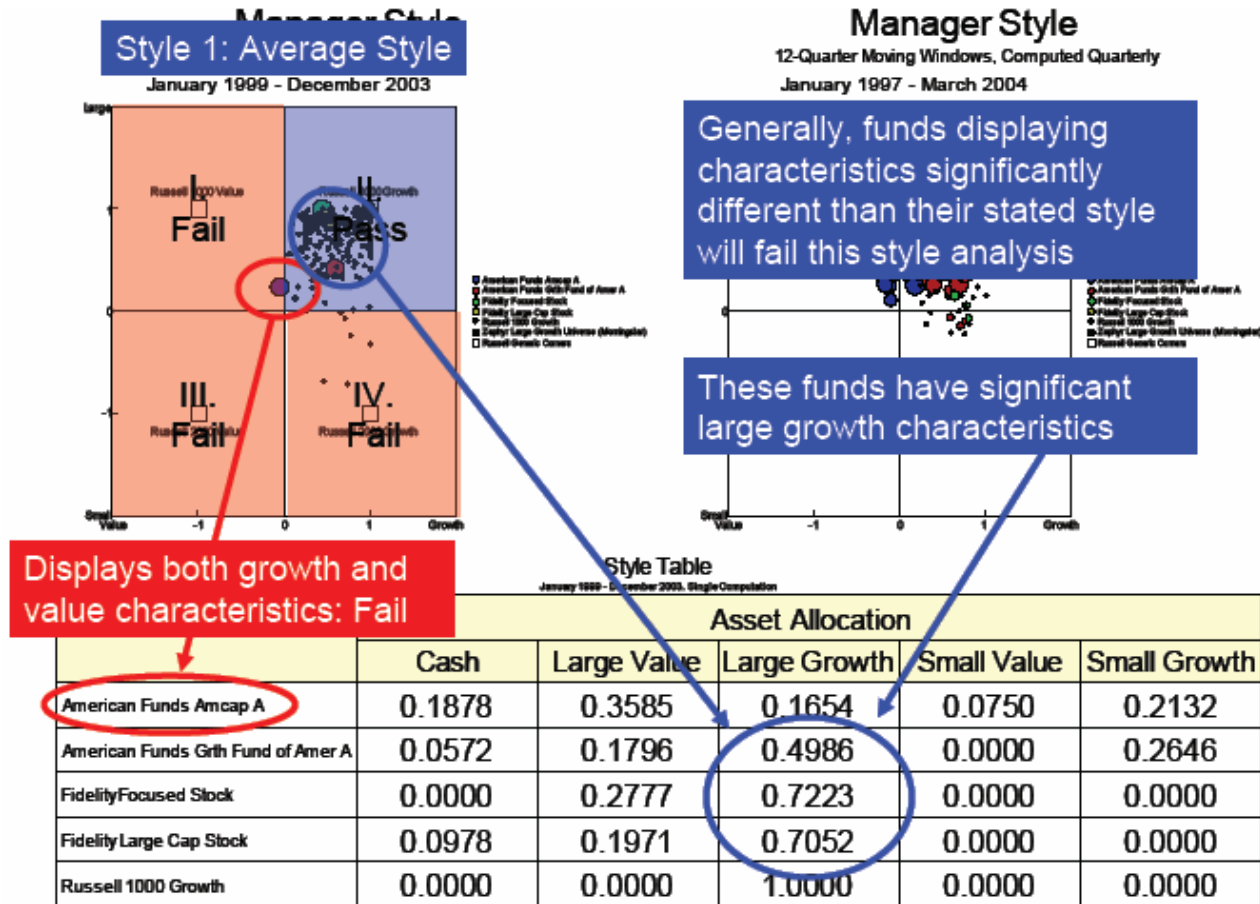
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Large Cap Growth – Style Analysis



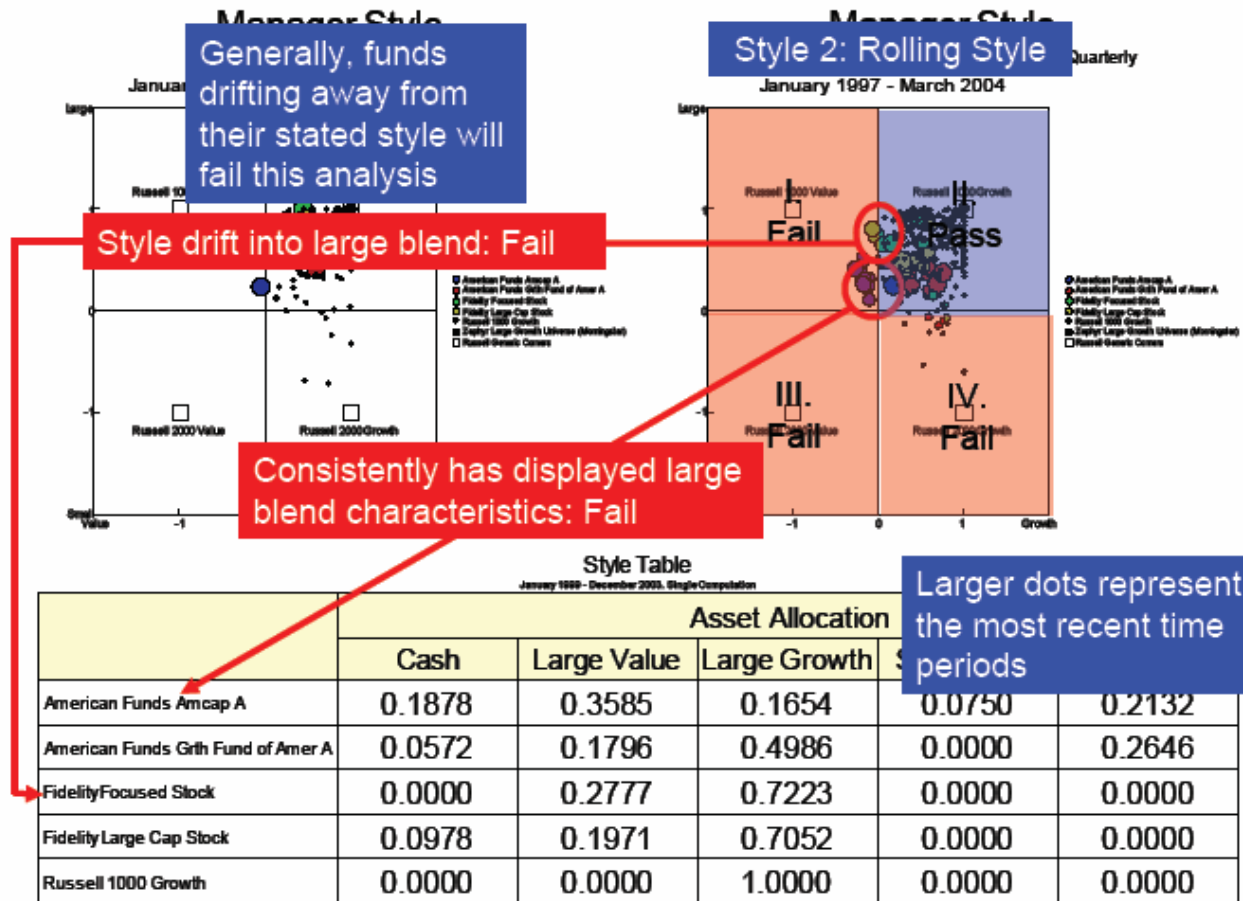
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Large Cap Growth – Style Analysis



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Large Cap Growth – Modern Portfolio Statistics



MPT Statistics

R-Squared Statistic > 80%: Pass

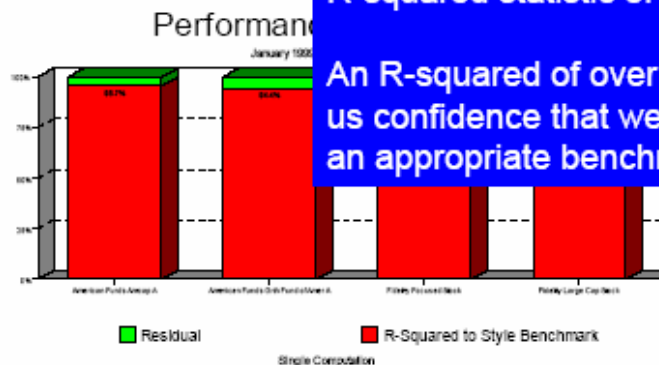
	Standard Deviation	Deviation (MAR = 0.00%)	Return vs. Market	Error vs. Market	Sig. Level vs. Market	Alpha vs. Market	Beta vs. Market	R-Squared vs. Market
American Funds Amcap A	18.67%	11.58%	10.60%	13.28%	93.49%	7.13%	0.62	78.78%
American Funds Grth Fund of Amer A	25.22%					3%	0.91	91.09%
Fidelity Focused Stock	24.53%					%	0.86	87.74%
Fidelity Large Cap Stock	21.53%					%	0.80	95.58%
Russell 1000 Growth	26.42%					%	1.00	100.00%

Fail

The percentage of the fund's movement that is explained by the benchmark.

An index fund tracking the Russell 1000 Growth index will have an R-squared statistic of 100%.

An R-squared of over 80% gives us confidence that we are using an appropriate benchmark.



the volatility of the fund's excess returns.
Measures the confidence of the fund's price.
risk adjusted excess return.
market risk/sensitivity to the market
percentage of the fund's movement that is explained by the market (benchmark).

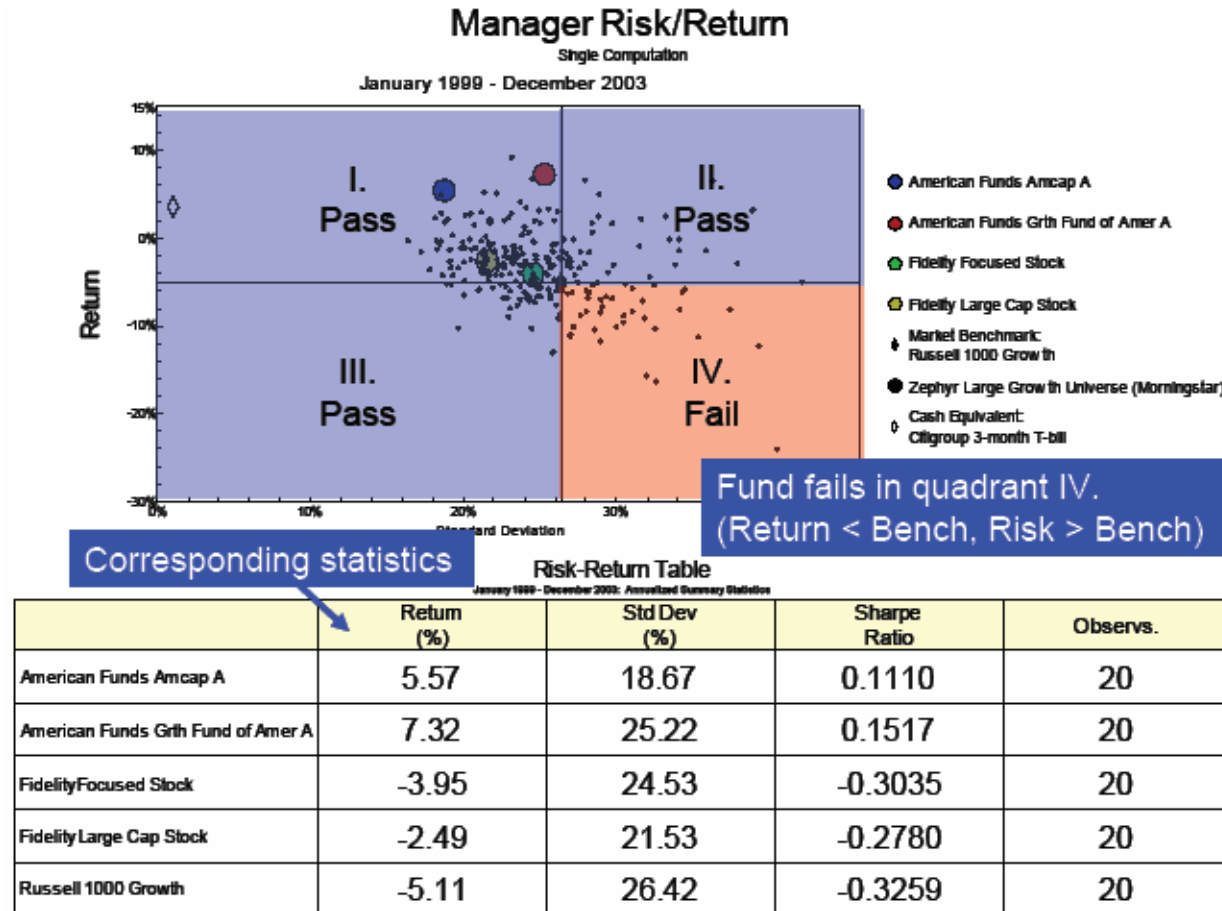
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The ScorecardSM System



Large Cap Growth – Risk Return Analysis



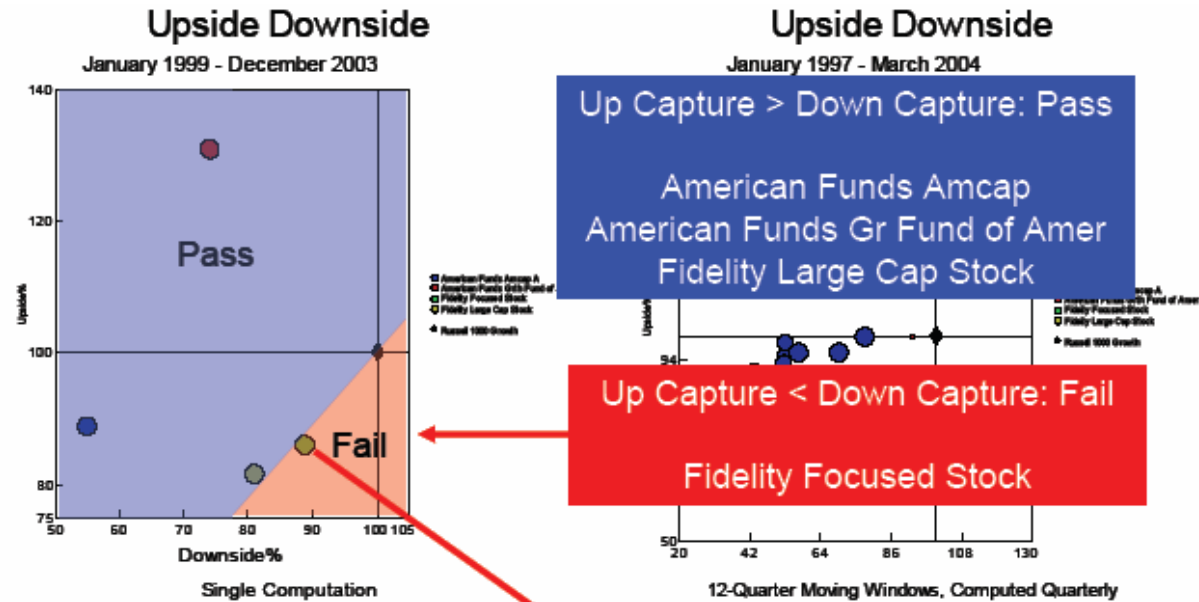
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The ScorecardSM System



Large Cap Growth – Up Down Capture Analysis



Up/Down Table
January 1999 - December 2003, Single Computation

	# of Quarters		Average Return (%)		Market Benchmark (%)		R-Squared
	Up	Down	Up	Down	Up Capture	Down Capture	
American Funds Amcap A	12	8	7.72	7.13	88.8	54.8	78.78
American Funds Grth Fund of Amer A	11	9	11.81	-8.80	131.0	73.7	91.09
Fidelity Focused Stock	11	9	8.41	-10.86	86.2	88.6	87.74
Fidelity Large Cap Stock	11	9	7.79	-9.67	81.8	80.7	95.58
Russell 1000 Growth	10	10	10.18	-11.08	100.0	100.0	100.00

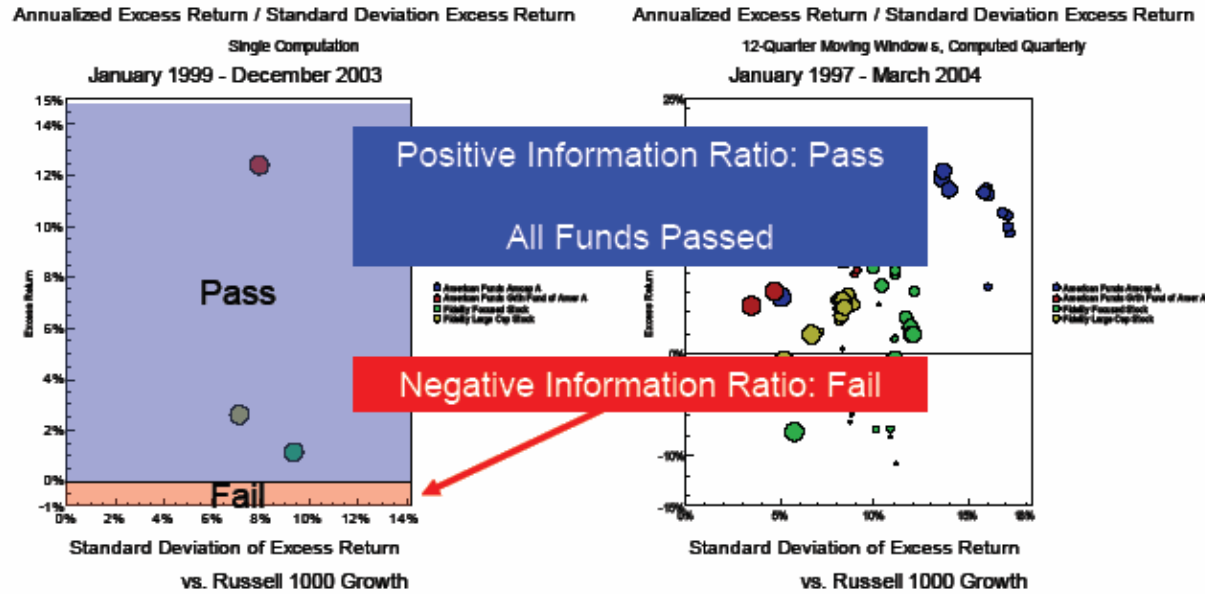
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The ScorecardSM System



Large Cap Growth – Relative Risk Return Analysis



Performance Table
January 1999 - December 2003, Single Computation

	vs. Russell 1000 Growth				
	Annualized Excess Return (%)	Info Ratio	Significance Level (%)	Explained Variance (%)	Tracking Error (%)
American Funds Amcap A	10.68	0.81	93.49	78.18	13.20
American Funds Grth Fund of Amer A	12.43	1.56	99.13	90.95	7.95
Fidelity Focused Stock	1.16	0.12	60.43	87.53	9.33
Fidelity Large Cap Stock	2.63	0.37	77.76	95.45	7.08

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Sample illustration from the ScorecardSM System.



The ScorecardSM System



Large Cap Growth – Peer Group Analysis (Return)

Manager vs Universe: Return through March 2004

(not annualized if less than 1 year)

Zephyr Large Growth Universe (Morningstar)



5 Year*	Median Rank	Volatility of Rank
American Funds Amcap A	2.70%	1.78
American Funds Grth Fund of Amer A	5.37%	2.83
Fidelity Focused Stock	67.61%	15.82
Fidelity Large Cap Stock	42.82%	5.35
Russell 1000 Growth	48.02%	17.06

*5 years or longest common time

Zephyr Large Growth Universe (Morningstar)

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Sample illustration from the ScorecardSM System.

The ScorecardSM System



Large Cap Growth – Peer Group Analysis (IR)

Manager vs Universe: Information Ratio through March 2004

(not annualized if less than 1 year)

Zephyr Large Growth Universe (Morningstar)



5 Year*	Median Rank	Volatility of Rank
American Funds Amcap A	3.89%	1.99
American Funds Grth Fund of Amer A	0.90%	0.75
Fidelity Focused Stock	71.18%	8.55
Fidelity Large Cap Stock	41.44%	7.31
Russell 1000 Growth	48.00%	19.94

*5 years or longest common time

Zephyr Large Growth Universe (Morningstar)

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Sample illustration from the ScorecardSM System.



Section III.



Risk-based Model Portfolio Construction

Risk-based Model Portfolio Construction



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- Deferred compensation Investment Advisors ScorecardSM System is the only system to monitor funds in COLI contracts. Sample illustration from the ScorecardSM System.

Hancock MEVL III			
Value	Blend	Growth	
10	9	10	Large
5	6.5	8	Mid
9	N/A	6	Small
Int'l	Global	Core Fixed	
9	9	8	
Vendor Score	8.14		

ING Corp Benefits VUL			
Value	Blend	Growth	
9	6	8	Large
10	9	8	Mid
9	9	4	Small
Int'l	Global	Core Fixed	
9	2	10	
Vendor Score	7.75		

Lincoln CV4 Elite Series			
Value	Blend	Growth	
9	9	8	Large
8	9	10	Mid
8	9	10	Small
Int'l	Global	Core Fixed	
9	10	6	
Vendor Score	8.75		

Principal EVUL			
Value	Blend	Growth	
9	9	7	Large
8	10	8	Mid
10	5	6	Small
Int'l	Global	Core Fixed	
7	10	7	
Vendor Score	8.00		

Prudential PruSelect III			
Value	Blend	Growth	
9	8	7	Large
6	6	6	Mid
6	10	4	Small
Int'l	Global	Core Fixed	
5	4	10	
Vendor Score	6.75		

Travelers CV Life IV			
Value	Blend	Growth	
10	9	10	Large
10	9	6	Mid
9	6	9	Small
Int'l	Global	Core Fixed	
8	10	9	
Vendor Score	8.75		

Nationwide CFPVUL			
Value	Blend	Growth	
10	9	10	Large
10	7	8	Mid
3	9	10	Small
Int'l	Global	Core Fixed	
9	10	9	
Vendor Score	8.67		

Travelers Corporate Select			
Value	Blend	Growth	
10	9	10	Large
10	9	8	Mid
8	6	10	Small
Int'l	Global	Core Fixed	
8	10	9	
Vendor Score	8.92		

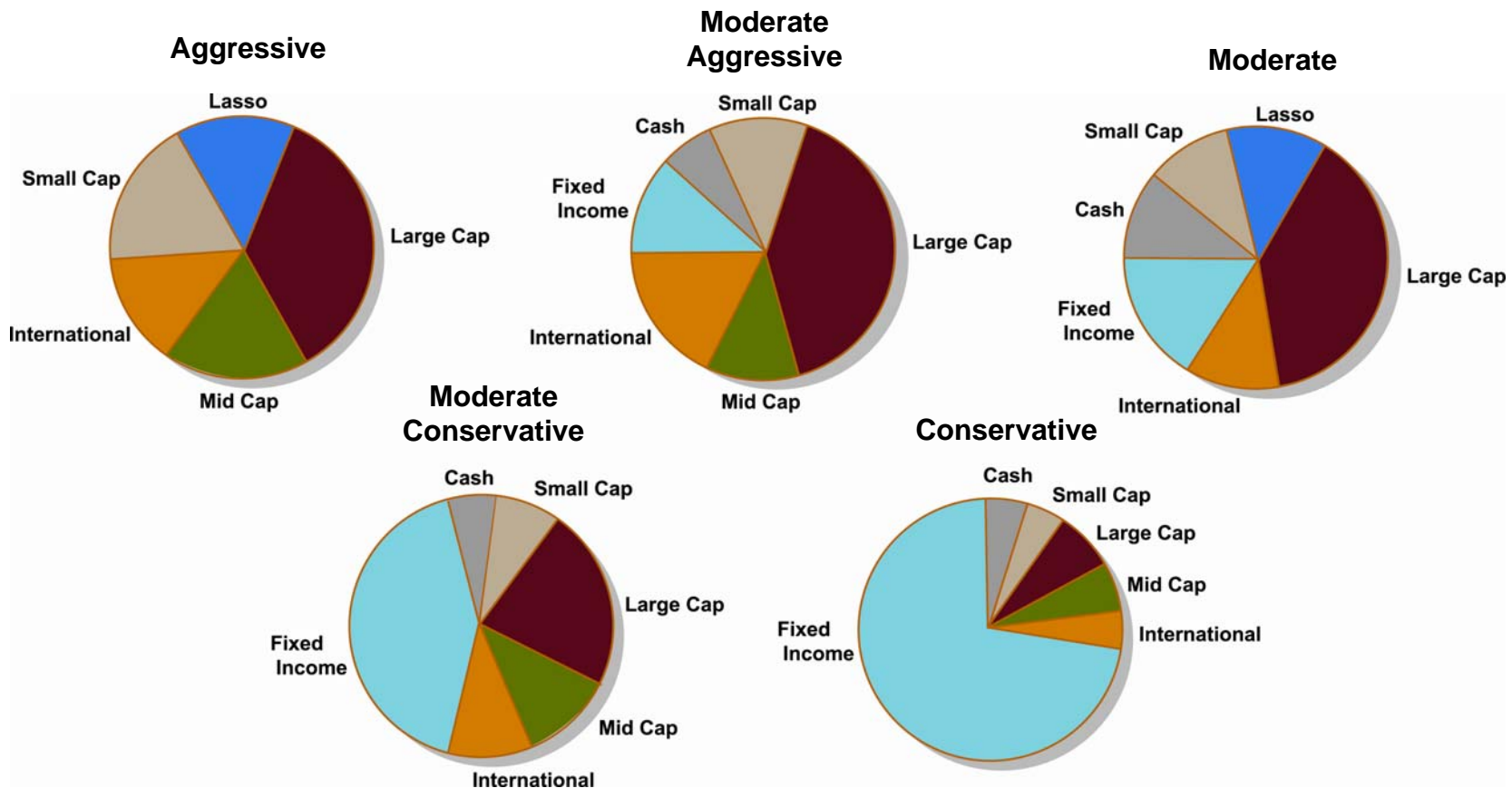
New York Life			
Value	Blend	Growth	
10	9	10	Large
10	9	7	Mid
N/A	9	7	Small
Int'l	Global	Core Fixed	
9	3	10	
Vendor Score	8.45		

This hypothetical illustration shows how the performance of underlying accounts could potentially affect a policy's cash values and death benefits. It may not be used to predict or project investment results. Fees and charges vary between different policies; must refer to the policy prospectus for complete information on fees, charges or expenses. Variable COLI is available by prospectus only.

Risk-based Model Portfolio Construction



- Asset Allocation Portfolios. DCIA structures portfolios based on various risk tolerances to help participants with asset allocation.



Sample illustration from the ScorecardSM System.



Section IV.



Qualitative Criteria

Qualitative Criteria



- ❑ **0-2 points allowed in the qualitative category.**
- ❑ **20% of the score.**
- ❑ **“What makes a good fund great.”**
- ❑ **Primary qualitative factors:**
 - ◆ Manager tenure;
 - ◆ Fund expenses;
 - ◆ Strength/significance of statistics.
- ❑ **Other qualitative considerations:**
 - ◆ Quality of firm, resources, and reputation;
 - ◆ Pending litigation, legal and/or governance issues;
 - ◆ Other factors which may impact the fund’s management.



Section V.



Summary

Summary



- ❑ **Emphasis on quantitative analysis (versus the 401(k) vendor's own due diligence, which is usually more qualitative and subjective).**

- ❑ **The fund's Score can be used as a tool to:**
 - ◆ Add Funds
 - ◆ Eliminate Funds (0-4 points)
 - ◆ Watch List Funds (5-6 points)

- ❑ **The ScorecardSM allows the user to drill down into the suspect areas, identified easily by the fund's score.**

- ❑ **Fiduciaries can evaluate investments in a more comprehensive manner through one single score.**

- ❑ **Participants has better process for Asset Allocation.**



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