

*The following wording was provided by the Securities and Exchange Commission (SEC); the responses reflect Prime Buchholz policies.*

### OVERVIEW

The Employee Retirement Income Security Act (ERISA) requires that fiduciaries of employee benefit plans administer and manage their plans prudently and in the interest of the plan's participants and beneficiaries. In carrying out these responsibilities, plan fiduciaries often rely heavily on pension consultants and other professionals for help. Findings included in a report by the staff of the U.S. Securities and Exchange Commission released in May 2005, however, raise serious questions concerning whether some pension consultants are fully disclosing potential conflicts of interest that may affect the objectivity of the advice they are providing to their pension plan clients.

Under the Investment Advisers Act of 1940 (Advisers Act), an investment adviser providing consulting services has a fiduciary duty to provide disinterested advice and disclose any material conflicts of interest to their clients. In this context, SEC staff examined the practices of advisers that provide pension consulting services to plan sponsors and trustees. These consulting services included assisting in determining the plan's investment objectives and restrictions, allocating plan assets, selecting money managers, choosing mutual fund options, tracking investment performance, and selecting other service providers. Many of the consultants also offered, directly or through an affiliate or subsidiary, products and services to money managers. Additionally, many of the consultants also offered, directly or through an affiliate or subsidiary, brokerage and money management services, often marketed to plans as a package of "bundled" services. The SEC examination staff concluded in its report that the business alliances among pension consultants and money managers can give rise to serious potential conflicts of interest under the Advisers Act that need to be monitored and disclosed to plan fiduciaries.

To encourage the disclosure and review of more and better information about potential conflicts of interest, the Department of Labor and the SEC have developed the following set of questions to assist plan fiduciaries in evaluating the objectivity of the recommendations provided, or to be provided, by a pension consultant.

### QUESTIONNAIRE

**1. Are you registered with the SEC or a state securities regulator as an investment advisor? If so, have you provided the Fund with all the disclosures required under those laws (including Part II of Form ADV)?**

Yes, Prime, Buchholz & Associates, Inc. is a registered investment advisor with the SEC under the Investment Adviser's Act of 1940, as amended. Required disclosures are included in our Form ADV Part II, which is attached to our proposal.

*SEC Tip: You can check yourself — and view Part I of the firm's Form ADV — by searching the SEC's Investment Adviser Public Disclosure website. Your investment adviser must furnish you with a copy of Part II of Form ADV. At present, the LAPD database contains Forms ADV only for investment adviser firms that register electronically using the Investment Adviser Registration Depository. In the future, the database will expand to encompass all registered investment advisers—*

individuals as well as firms—in every state. If you can't locate an investment adviser in LAPD, be sure to contact your state securities regulator or the SEC's Public Reference Branch.

**2. Do you or a related company have relationships with money managers that you recommend, consider for recommendation, or otherwise mention to the plan for consideration?**

No, we do not have—nor have we ever had—any relationships with investment managers.

*SEC Tip: When pension consultants have alliances or financial or other relationships with money managers or other service providers, the potential for material conflicts of interest increases, depending on the extent of the relationships. Knowing what relationships, if any, your pension consultant has with money managers may help you assess the objectivity of the advice the consultant provides.*

**3. Do you or a related company receive any payments from money managers you recommend, consider for recommendation, or otherwise mention to the plan for consideration? If so, what is the extent of these payments in relation to your other income (revenue)?**

No. We are—and have been since our founding in 1988—a principal-owned, independent investment consulting firm with no business affiliations; we do not provide services to investment managers and do not receive payments or any other form of compensation from money managers.

*SEC Tip: Payments from money managers to pension consultants could create material conflicts of interests. You may wish to assess the extent of potential conflicts.*

**4. Do you have any policies or procedures to address conflicts of interest or to prevent these payments or relationships from being considered when you provide advice to your clients?**

We only receive hard dollar compensation from plan sponsors and other clients for investment consulting services. In addition, all consulting services provided to clients are governed by our Code of Ethics (Code) and Compliance Procedures. The purpose of our Code is to preclude activities which may lead to or give the appearance of conflicts of interest, insider trading and other forms of prohibited or unethical business conduct. It is based upon the principle that Prime Buchholz and its employees owe a fiduciary duty to the Firm's clients to conduct their affairs, including their personal securities transactions, in such a manner as to avoid (i) serving their own personal interests ahead of clients, (ii) taking inappropriate advantage of their position with the firm, and (iii) any actual or potential conflicts of interest or any abuse of their position of trust and responsibility.

Prime Buchholz is an independently owned and operated investment consulting firm. The sole focus of the Firm's business is to provide independent and impartial investment advice and guidance to clients. To avoid the likelihood that a client could receive investment advice that is not solely aligned with their best interests, Prime Buchholz:

- is not associated or affiliated with any other business entities;
- does not sell any services or products to investment managers;

- does not solicit or accept any fees, retainers or other forms of compensation such as “soft dollars” for recommending investment managers or for including investment managers in our universe; and
- does not manage any client assets on a discretionary basis.

Our Chief Compliance Officer (CCO) is responsible for monitoring and enforcing the firm’s Code. She performs education and training of the staff, collects and reviews reports regarding employee personal securities transactions and performs periodic tests to confirm staff adherence to compliance policies and procedures.

In addition, all supervised persons are mandated to promptly report to the CCO all apparent violations. The CCO is obligated to promptly report all apparent material violations to the President. The President will review such reports and determine whether or not the firm’s policies and procedures have been violated and what sanctions, if any, should be imposed. Possible sanctions may include reprimands, monetary fine or assessment, or suspension or termination of the employee’s employment with the firm.

*SEC Tip: Probing how the consultant addresses these potential conflicts may help you determine whether the consultant is right for your plan.*

**5. If you allow plans to pay your consulting fees using the plan’s brokerage commissions, do you monitor the amount of commissions paid and alert plans when consulting fees have been paid in full? If not, how can a plan make sure it does not over-pay its consulting fees??**

Since Prime Buchholz is not a broker-dealer, plans do not have the ability to pay consulting fees using the plan’s brokerage commissions.

If requested, we will assist clients in establishing and reviewing a commission recapture program with non-affiliated, independent institutional brokerage firms where the account is in the name of and controlled by the client. The client may utilize the cash proceeds of its recaptured commissions to pay any of its allowed plan expenses, such as custody, consulting, or investment management fees.

*SEC Tip: You may wish to avoid any payment arrangements that could cause the plan to pay more than it should in pension consultant fees.*

**6. If you allow plans to pay your consulting fees using the plan’s brokerage commissions, what steps do you take to ensure that the plan receives best execution for its securities trades?**

Since Prime Buchholz is not a broker-dealer, plans do not have the ability to pay consulting fees using the plan’s brokerage commissions.

For those clients with commission recapture programs, we recommend that they consider only those recapture firms that can quantify the effectiveness of their execution through comprehensive reporting.

*SEC Tip: Where and how brokerage orders are executed can impact the overall costs of the transaction, including the price the plan pays for the securities it purchases.*

**7. Do you have any arrangements with broker-dealers under which you or a related company will benefit if money managers place trades for their clients with such broker-dealers?**

No, we do not have any such relationships with broker-dealers.

*SEC Tip: As noted above, you may wish to explore the consultant's relationships with other service providers to weigh the extent of any potential conflicts of interest.*

**8. If you are hired, will you acknowledge in writing that you have a fiduciary obligation as an investment adviser to the plan while providing the consulting services we are seeking?**

Yes, we will acknowledge in writing that Prime Buchholz has a fiduciary obligation as an investment adviser to the plan while providing the consulting services you are seeking.

*SEC Tip: All investment advisers (whether registered with the SEC or not) owe their advisory clients a fiduciary duty. Among other things, this means that advisers must disclose to their clients information about material conflicts of interest.*

**9. Do you consider yourself a fiduciary under ERISA with respect to the recommendations you provide the plan?**

Yes, Prime Buchholz considers itself a fiduciary under ERISA with respect to the recommendations we provide the plan.

*SEC Tip: If the consultant is a fiduciary under ERISA and receives fees from third parties as a result of their recommendations, a prohibited transaction under ERISA occurs unless the fees are used for the benefit of the plan (e.g., offset against the consulting fees charged the plan) or there is a relevant statutory or class exemption permitting the receipt of such fees.*

**10. What percentage of your plan clients utilize money managers, investment funds, brokerage services or other providers from whom you receive fees?**

None—0%.

*SEC Tip: The answer may help in evaluating the objectivity of the recommendations or the fiduciary status of the consultant under ERISA.*

### FOR MORE INFORMATION

For more information on the SEC staff's findings, please read Staff Report Concerning Examinations of Select Pension Consultants. Plan trustees, pension consultants, and other service providers can learn about their fiduciary responsibilities under the Employee Retirement Income Security Act (ERISA) by visiting the website of the Department of Labor. Pension consultants who have questions concerning their obligations under the Investment Advisers Act of 1940 should either consult with an attorney who specializes in the federal securities laws or contact the staff of the SEC's Division of Investment Management.

<http://www.sec.gov/investor/pubs/sponsortips.htm>

Content is current as of the date indicated and is subject to change without notice.