



CAPTRUST Financial Advisors

## Annual Due Diligence Questionnaire for Discretionary Clients



## SECTION ONE: INVESTMENT MANAGER MONITORING

CAPTRUST has proactively answered the questions below in an effort to make it easier for plan sponsors and investment committees monitor their plan/account's investment manager.

### Firm

**Have there been any changes to the management or ownership of the firm? If yes, please describe.**

In October 2016, Eric Freedman, Chief Investment Officer and member of the Executive Committee left the firm; J. Fielding Miller, Chief Executive Officer, joined the Investment Committee. In April 2017, Kevin D. Barry joined the firm as Chief Investment Officer, and Kevin Barry and Scott Matheson were named Executive Committee members.

As CAPTRUST's chief investment officer, Kevin leads the firm's Consulting Research Group, the team responsible for investment manager due diligence, asset allocation, and discretionary investment management for the firm's wealth management and institutional retirement plan advisory businesses. He also serves as a member of the Executive Committee. Most recently, Kevin served as chief investment officer and senior portfolio manager for Third Law Capital Management in New York. There, he developed macroeconomic investment themes, conducted fundamental security analysis, and implemented asset allocation, hedging, and risk management solutions for clients. Previously, he was a partner and portfolio manager at Caxton Associates, a global macro hedge fund. He has more than 20 years of experience in portfolio management, capital market strategy, and investment research. Kevin studied finance at LaSalle University in Philadelphia and the University of London, where he received a Master of Science in Financial Management. He is a Chartered Financial Analyst® (CFA), Professional Risk Manager (PRM™), and Certified Trust and Financial Advisor (CTFA).

A full copy of our Disclosure Brochure may be requested by email at [compliance@captrustadvisors.com](mailto:compliance@captrustadvisors.com).

**Have there been any organizational changes to the firm that may impact the management of the plan/account? If yes, please describe.**

No. The organizational changes summarized above will have no impact on the management of the plan/account. From a growth standpoint, over the past five years, CAPTRUST has expanded its client base and increased the number of office locations, growing opportunistically. We are growing at a pace consistent with maintaining high levels of stewardship and client service.

**Has there been a change to the firm's status as an investment adviser registered under The Investment Advisers Act of 1940?**

Yes  No

**Has the firm been the subject of an investigation by any regulatory and/or government agency? If so, please describe and send a copy of any documentation regarding the disposition of such investigation.**



Yes  No

**Has the firm been the subject of any routine examination by regulatory authorities or independent auditors? If so, please provide a summary of the circumstances and outcome of such examination and/or audits.**

The last routine exam by regulatory authorities was performed in the summer of 2014. At that time, CAPTRUST was the subject of a routine examination by both the U.S. Securities & Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). The SEC exam was focused entirely on the firm's wealth management business (as opposed to its retirement plan or institutional advisory business). Specifically, the SEC examined the firm's wrap fee programs. Deficiencies noted by examiners were mitigated and addressed with revised disclosures in the wrap-fee and non-wrap-fee wealth management brochures. All clients received revised disclosure brochures. The SEC examiners did not inquire or review any of the firm's institutional business. The Financial Industry Regulatory Authority (FINRA) examined the affiliated broker/dealer in the summer of 2014. The FINRA routine exam concluded with no material deficiencies to disclose.

Additionally, the firm is subject to several audits (annually) by independent third parties:

- ) Independent financial audit by a CPA firm
- ) Surprise custodial audit as required under the Investment Advisers Act of 1940 (Advisers Act)
- ) Review of internal control procedures by an independent CPA each year
- ) Anti-money-laundering audit by an independent third-party consulting firm

**Has the firm been the subject of any litigation (settled, pending, or threatened)? If yes, please describe.**

Two human-resource-related cases have been filed against CAPTRUST, both of which were successfully resolved some time ago. Two lawsuits have been filed against CAPTRUST relating to its investment advisory services as described below.

In 2015, a plan participant in a 401(k) plan sponsored by a CAPTRUST client filed a legal action against Prudential Retirement Insurance and Annuity Company alleging that Prudential had charged excessive fees to the plan (Rosen v. Prudential Retirement Insurance and Annuity Company, et. al.). In April 2016, CAPTRUST and the plan sponsor were joined as additional defendants in that action. CAPTRUST has retained outside counsel to represent it in the litigation and has directed those attorneys to aggressively defend against all alleged claims filed against it. CAPTRUST considered this claim to be unwarranted and expected a favorable outcome. On December 30, 2016, the judge presiding over this case dismissed all claims against all defendants with prejudice. This was followed up by an order from the Second Circuit, filed March 22, 2017, dismissing with prejudice all claims against CAPTRUST and the plan sponsor, officially closing the case.



In August 2016, a plan participant in a 403(b) plan sponsored by a private university client of CAPTRUST's (the University) filed a class action lawsuit action against the University and the retirement plan oversight committee of the University in the United States District Court for the Southern District of New York (Civil Action No. 16-cv-6525) alleging that the defendants had breached various fiduciary duties owed to the participants in two of the retirement plans. In December 2016, the plaintiff amended his complaint: (i) naming three more plan participants as additional plaintiffs; (ii) naming the head of the oversight committee and CAPTRUST as additional defendants; and (iii) revising its allegations with respect to the types of fiduciary breaches allegedly committed. The complaint does not specifically allege any wrongdoing by CAPTRUST but merely lumps it together with the University and the oversight committee. CAPTRUST's answer to the Complaint is not yet due, but it strongly maintains that, in its role as a non-discretionary advisor, it fulfilled all of its fiduciary duties to the retirement plans and their participants. CAPTRUST has retained outside legal counsel to represent it in the litigation and has directed those attorneys to aggressively defend against all of the claims filed against it. CAPTRUST is confident that an adverse outcome is highly unlikely.

**Have there been any material changes to the firm's Fidelity bond insurance or error and omission insurance? If yes, please explain.**

Yes  No

**Have there been any changes to the firm's written fiduciary status as it relates to the plan/account? If yes, please explain.**

Yes  No

**Have there been any changes to the firm's roles and responsibilities as it relates specifically to the plan/account? If yes, please explain.**

Yes  No

**Have all sources of compensation been clearly disclosed?**

Yes  No

**Does the firm have any conflicts of interest with any of the plan/account's underlying investment managers or providers? If yes, please explain.**

No. CAPTRUST is a fee-for-service organization. We have no proprietary products or funds. The total compensation received by our firm cannot exceed the consulting services fee (direct fee) with the client. However, since CAPTRUST is affiliated by common ownership with CapFinancial Securities, LLC (CFS), member FINRA/SIPC, we fully disclose this as a conflict of interest on our Form ADV Disclosure Brochures. As a broker-dealer, CFS can be appointed by plan clients to act as "broker of record" for purpose of collecting mutual fund or variable product revenue in order to apply that revenue as a credit to a plan's consulting fees for CAPTRUST retirement plan advisory services. This is considered a value-added service and can only be done at the direction



of the plan sponsor. As disclosed in our Form ADV Disclosure Brochure, in light of recent regulatory guidance issued by the DOL, as a level-fee fiduciary, CAPTRUST has resolved to eliminate all such arrangements that include CFS. Please see Form ADV Part 2 for a complete discussion of this topic.

**What are the investment manager's discretionary assets under advisement? What is the total number of plans/accounts with which the investment manager acts in a discretionary fashion?**

As of 3.31.2017, CAPTRUST acts as a discretionary investment manager for 546\* institutional accounts/retirement plans representing more than \$9.8 billion in assets under advisement. \*1 out of the 546 quoted above is a single relationship consisting of 1,159 plans. These were counted individually in the 2015 RFI.

### Personnel

**Have there been any personnel changes to the Investment Committee that makes investment decisions impacting the plan/account? If so, please list names, title, and a brief description of the person's role.**

Yes  No

In October 2016, Eric Freedman, Chief Investment Officer and member of the Executive Committee left the firm; J. Fielding Miller, Chief Executive Officer, joined the Investment Committee. In April 2017, Kevin D. Barry joined the firm as Chief Investment Officer, and Kevin Barry and Scott Matheson were named Executive Committee members.

**Have there been any personnel additions or departures that directly affect the management of the plan/account?**

Yes  No, however see response to previous question.

### Investment Process

**Have there been any changes to the firm's capital market assumptions or tactical views? If yes, please list each change and a brief description. How do these views impact the plan/account?**

In January 2016, we made updates to our capital market assumptions. Changes to our tactical views are implemented in discretionary portfolios in real time.

**Have there been any changes to the investment process or philosophy of the firm? If yes, please explain.**

Yes  No



Have there been any changes to the manager due diligence process employed by the firm? If yes, please explain.

Yes  No

Have there been any changes to the process with which investment options are monitored? If yes, please explain.

Yes  No

Have there been any changes to the reporting for investment options? If yes, please explain.

Yes  No

Have there been any changes to the firm's standard Investment Policy Statement? If so, please describe.

Yes  No

## SECTION TWO: INVESTMENT PROCESS MONITORING

The questions below are intended for plan sponsors and/or investment committees to complete, in an effort to memorialize what they are doing from an investment process perspective to monitor the actions of their plan's investment manager.

### Documentation and Communication

Does the investment manager clearly communicate any changes made to the investment options in the plan and the rationale for doing so?

Yes  No

Does the investment manager provide proper documentation of investment decisions made and house these documents in a secure and central place?

Yes  No

Does the investment manager clearly define its criteria for selection and ongoing monitoring of investment options through an Investment Policy Statement (IPS)?

Yes  No

Are all investment decisions communicated in a timely fashion?

Yes  No



If a Qualified Default Investment Option (QDIA) is utilized in the plan, is the selection and rationale properly documented?

Yes  No

**Disclosures**

Does the investment manager acknowledge its fiduciary status in writing?

Yes  No

Are the roles and responsibilities of the investment manager clearly stated and documented in the plan’s IPS? If there are areas where the investment manager does not take on discretion (e.g. individual annuity contracts, company stock), are those areas properly communicated and disclosed?

Yes  No

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Does the investment manager have any conflicts of interest with any of the plan’s underlying investment managers or providers?

Yes  No

Does the investment manager fully disclose all sources of compensation?

Yes  No

**Investment Selection and Monitoring**

Does the investment manager clearly define its criteria for selection and ongoing monitoring of investment options through an IPS? Are these procedures consistently applied to all investment options and any deviations from the process clearly explained?

Yes  No

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Does the investment manager monitor the plan’s investments on a periodic basis, but no less than annually?

Yes  No



Has the investment manager clearly communicated who makes investment decisions that impact the plan? Who has final say in investment decisions? What is the process involved in making these decisions? Does the investment advisor periodically assess the plan's investment options and provider capabilities in an effort to optimize outcomes?

Yes  No

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### Lineup Construction

Does the investment lineup provide for a reasonable range of participant risk tolerances?

Yes  No

Is the lineup constructed with the intent to meet ERISA 404(c) requirements?

Yes  No

Does the investment lineup offer pre-diversified investment options, such as target date or risk-based portfolios that are based on reasonable risk/return assumptions?

Yes  No

If the investment advisor manages any diversified portfolios or models for the plan, are the underlying risk/return assumptions clearly communicated? Are all changes to diversified portfolios or models clearly communicated? How?

Yes  No

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